



## CITY OF SAN JOSÉ, CALIFORNIA

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June 9, 1988

Honorable Mayor and Members  
of the City Council  
801 North First Street, Room 600  
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Transmitted herewith is *An Audit of the City of San Jose's Parking Citation Process*. This report is in accordance with City Charter Section 805.

An Executive Summary is presented on the blue pages in the front of this report while an Administration response is shown on the yellow pages before the Attachments.

I will present this report to the Finance Committee at its June 15, 1988 meeting. If you need additional information in the interim, please let me know. The City Auditor staff members who participated in the preparation of this report are Nestor Baula and Juan Bettaglio.

Respectfully submitted,

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**OFFICE OF THE  
CITY AUDITOR**

**AN AUDIT OF THE CITY OF SAN JOSE'S  
PARKING CITATION PROCESS**

**A REPORT TO THE  
SAN JOSE  
CITY COUNCIL  
FINANCE COMMITTEE**

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## EXECUTIVE SUMMARY

In accordance with the City Auditor's approved 1987-88 Audit Workplan, we have reviewed the City of San Jose's parking citation process for the period from September 1986 through February 1988. We conducted our review in accordance with generally accepted government auditing standards and limited our review to those areas specified in the Scope and Methodology section of this report.

We reviewed the procedures of the Police and Finance Departments, and Vertical Management Systems to determine whether controls are in place to ensure that:

- The parking citations the City and Airport police officers and parking control checkers complete are recorded in the citations database;
- Bail payments are deposited intact in the City's bank account and recorded in the citations database;
- Voidings, dismissals, and other adjustments of citations are properly authorized and recorded in the citations database; and
- The prescribed collection actions, such as delinquency notices and registration holds, are performed on unpaid citations on a timely basis.

As part of our audit, we performed a risk analysis of the parking citations process to determine the potential for losses to the City from the various parking citations process elements. Our review revealed the following:

Improved Procedures For Collecting  
Parking Fines And Penalties From  
Habitual Offenders Could Increase  
Revenues By Approximately \$430,000 In 1988-89

Habitual parking offenders are those owners of vehicles who have accumulated five or more unpaid parking citations. As of March 3, 1988, habitual parking offenders owed the City of San Jose \$1,291,099 in unpaid parking fines and penalties. By implementing additional procedures, we estimate the City could collect an additional \$430,000 from habitual offenders in 1988-89 and \$300,000 per year thereafter. These additional procedures include: 1) a one-time, short-term amnesty program for habitual offenders, 2) using a habitual offender "hot sheet" to identify and impound habitual offender-owned vehicles, and 3) initiating a direct collection effort. In addition, by exploring the possibility of transferring registration liens from one vehicle to another, the City may be able to recoup a portion of the \$759,000 that we estimate to be currently uncollectible.

Consistent Citings For Expired  
Registrations Could Increase  
Revenues By \$66,000 Per Year

Our review of the parking citation process revealed that parking control checkers are not consistently citing vehicles for expired registrations. As a result, the City is potentially losing \$66,000 per year in parking fines.



*Improved Accounting, Monitoring And  
Reconciliation Procedures Could Increase  
Parking Citation Revenues By An  
Estimated \$114,000 Per Year*

Our review of the parking citation process revealed that City controls over the process can be improved. Specifically, the Police and Finance Departments can improve their parking citation accounting, monitoring and reconciliation procedures to ensure that 1) blank citation forms are accounted for, 2) citations are entered into the citation database, 3) payments are deposited intact into the City's bank account, 4) voidings and other adjustments are approved and recorded, and 5) collection actions are performed in a timely manner. In addition, with improved controls the Finance Department will be better able to assess the processing contractor's collection rate and timeliness of processing delinquency notices and registration holds. We estimate that these recommended additional controls will cost \$20,600 per year to implement and could increase the City's parking citation revenues \$114,400 per year.

*Steps Need To Be Taken To  
Eliminate Confusion Over "Fix-It"  
Violations On Parking Citations*

Confusion exists over expired-registration and other non-parking violations such as bald tires and broken headlamps. These are collectively referred to as "fix-it" violations. Confusion arises because of questions about the legality of including fix-it violations on the parking citation form and

because of citation form inadequacies. According to the Police Department, this confusion has led to numerous citation recipient complaints.

*The City Is Exposed To Risk Because  
The Processing Contractor Has Not  
Provided Required Certificates Of  
Insurance Or Fidelity And Performance Bonds*

As part of our audit, we reviewed the agreement between the City of San Jose and Vertical Management Systems, Inc. for compliance. We noted that VMS had not provided the City with required certifications of bodily injury, property damage, or Workers' Compensation Insurance. In addition, VMS had not filed required fidelity and performance bonds. As a result, the City is exposed to risk to the extent parking citation processing liabilities or losses occur.

RECOMMENDATIONS

We recommend that:

Recommendation #1:

The Finance Department implement a parking citation amnesty program for habitual parking offenders. (Priority 1)

Recommendation #2:

The Police Department:

- Provide parking control checkers with a weekly license number list of habitual parking offenders (hot-sheet), and
- Instruct parking control checkers to check the hot sheet for the license number of vehicles bearing expired registration tags or vehicles suspected to be habitual parking offender owned vehicles. (Priority 1)

Recommendation #3:

The Finance Department pursue, through a direct collection approach, such as personalized letters, the unpaid parking citation fines and penalties which the City can not collect through vehicle registration liens. (Priority 1)

Recommendation #4:

The Finance Department:

- Consult with the Office of the City Attorney to determine how the City can take advantage of the California Vehicle Code provision allowing the transfer of registration liens for unpaid parking citation fines and penalties to other vehicles the habitual parking offender owns, and
- Develop procedures to effect the transfer of registration liens to the other vehicles the habitual parking offender owns. (Priority 1)

Recommendation #5:

The Police Department:

- Revise the parking citation form to show a separate box and bail amount for expired registrations, and
- Instruct parking control checkers to verify registration status from the vehicle's rear license plates when they issue parking citations. (Priority 1)

Recommendation #6:

The Police Department:

- Convert the 3-part parking citation form to a 4-part form when the current supply of citation forms is exhausted,
- Require police officers and parking control checkers to return used citation booklets with the fourth copy intact when requisitioning new booklets and to sign a requisition log for new booklets, and
- Follow-up on unreturned citation booklets after a reasonable time to account for the usage or disposition of citation forms. (Priority 1)

Recommendation #7:

The Finance Department develop and implement reconciliation procedures to:

- Determine whether all the citations the Police Department delivers to the parking citation processing contractor are recorded in the citation database,
- Determine the reasons for any differences noted, and
- Make appropriate adjustments to the citation database to reflect the correct amounts. (Priority 1)

Recommendation #8:

The Finance Department develop and implement reconciliation procedures to:

- Determine whether the processing contractor reported citation payments that agree with the amounts the bank acknowledges,
- Determine the reasons for any differences noted, and
- Make appropriate adjustments to the citations database to reflect the correct amounts. (Priority 1)

Recommendation #9:

The Finance Department develop and implement reconciliation procedures to determine whether citation dismissals, voidings, and other adjustments are authorized and properly recorded in the citations database. (Priority 2)

Recommendation #10:

The Finance Department develop and implement reconciliation procedures to determine whether appropriate and timely collection actions are performed on all delinquent citations. (Priority 1)

Recommendation #11:

The Police Department reduce or eliminate the confusion regarding fix-it violations on parking citations by:

- Consulting with the Office of the City Attorney regarding the legality of charging fix-it violations through the parking citation process, and
- Including on the citation form specific information on the penalty for fix-it violations and what action the vehicle owner should take to clear the violation. (Priority 3)

Recommendation #12:

The Finance Department ascertain that the processing contractor has acquired all the required performance bonds and other insurances for the period specified in its agreement with the City. (Priority 1)

### BACKGROUND

The City of San Jose followed a careful process, coordinated with certain other jurisdictions in Santa Clara County, in selecting the private contractor to process parking citations. The current contractor, however, has experienced financial difficulties and has consequently sold its operations to a previous competitor. The new company currently manages the processing of the City's parking citations on an interim basis pending the City's approval or rejection of the assignment of the current contract to the new company.

#### The Rationale For Hiring A Private Contractor For Processing Parking Citations

The rationale for hiring a private contractor to process City of San Jose parking citations is explained in a memorandum dated August 6, 1986, from the Director of Finance:

"Prior to 1980, parking citations in Santa Clara County were processed through the Municipal Court system. Budget constraints forced the courts to cut back on parking citation processing, causing severe collection backlogs, revenue losses to cities, and allowing some violators to escape payment of parking fines. In 1980, the court declared it would no longer process routine parking citations for issuing jurisdictions. It would only become involved in cases where a citation was contested.

The cities of Santa Clara County, the County and the various school and hospital districts then came together to determine a new method for the processing of parking citations. They decided that the use of a private contractor would be the best alternative to processing the citations through their in-house staffs.

*It was further determined that privatization of the parking citation process would be cost effective to each jurisdiction only if all agreed to contract with the same provider. Though not formalized, this agreement made it possible for the County's jurisdictions to select a single vendor who would provide services at a cost-per-citation rate lower than each jurisdiction could have on its own."*

*The First Parking Citations Processing Contractor - Datacom Systems, Inc.*

The first private contractor hired was Datacom Systems, Inc. The initial contract was for a three-year period that expired in September 1983. After a Request-for-Proposal (RFP) process in 1983, Datacom was again selected for another three-year contract. The second contract with Datacom expired on September 14, 1986.

*The Second Parking Citations Processing Contractor - Vertical Management Systems, Inc.*

Before the second contract with Datacom expired, the Santa Clara County Parking Advisory Committee, which consisted of representatives from the cities within Santa Clara County, the County, and various school and hospital districts, solicited and reviewed proposals from parking citation service providers. In July 1986, the Committee recommended Vertical Management Systems, Inc. (VMS) as the vendor with whom member jurisdictions should sign their 1986 parking citation processing contracts.



Based on this recommendation, the City of San Jose entered into a one-year agreement with Vertical Management Systems, Inc. This agreement was to commence on September 15, 1986 and was renewable twice at one-year intervals. Under this agreement, the City retained VMS as an independent contractor to provide service for the processing of City-issued parking citations for illegal parking under State laws and City ordinances. The agreement provided that the City would pay VMS \$.88 per citation as long as the combined citation volume of the agencies in Santa Clara County was greater than 200,000 per year. In comparison, the City paid Datacom Systems, Inc. \$1.41 per citation under the terms of the second contract which expired in September 1986.

In addition to the recording and collection of parking citation fines, VMS was to open a local office to serve walk-in traffic and callers and provide reports and computer terminals to the Finance and Police Departments. The agreement also required VMS to deposit into the City's bank account, on a daily basis, all monies paid on San Jose citations. VMS would then bill the City for services.

*Vertical Management Systems  
Experienced Financial Difficulties  
And Sought To Assign Its Contract  
To Computil Corporation*

During the first year of the agreement, VMS experienced financial difficulties and was unable to remit to the various County agencies approximately \$700,000 of bails collected. The City of San Jose continued to receive its payments because a special contract provision required VMS to deposit those payments it collected on behalf of the City into a City bank account on a daily basis. However, VMS did not remit to the City \$53,527 from vehicle registration lien payments the California Department of Motor Vehicles collected for the City. To recoup these monies, the City has withheld from VMS service payments of at least that amount.

Under the automatic renewal clause in the agreement, the City allowed VMS to continue as the service provider on the agreement's first anniversary. Shortly before that, VMS informed the City that the Computil Corporation of New Jersey was in the process of acquiring the parking citations processing assets and liabilities of VMS, and that both companies wanted the City to assign the VMS agreement to the Computil Corporation.

Computil Corporation Was One Of  
The Contractors Interviewed In 1986

In a memorandum dated October 23, 1987, the Finance Director reported that Computil had been one of the three best qualified contractors a subcommittee of the Santa Clara County Parking Advisory Committee interviewed in 1986. Although the subcommittee was favorably impressed with Computil, it could not support the idea of processing local parking tickets through New Jersey, where Computil was located.

Computil Corporation, Through Its Subsidiary,  
West-Computil, Now Manages, On An Interim Basis,  
The Processing Of Parking Citations

Computil Corporation, through its subsidiary, West-Computil, now manages VMS' business on an interim basis pending the City of San Jose's approval or rejection of the assignment of the parking citations processing agreement. VMS' local office has continued to operate and process San Jose parking citations under the direction of West-Computil.

The Parking Citations Process Involves  
The City Finance, Police And Airport Departments,  
Vertical Management Systems, The Department Of  
Motor Vehicles And The Municipal Court

The flowcharts shown in ATTACHMENT II describe the operations involved in the parking citations process. In general, the City and Airport police officers, and parking control checkers issue parking citations to illegally parked

vehicles. The Police Warrants Unit then batches the copies of the completed citations and delivers them to the VMS San Jose office. VMS staff enter the citation information into their computers and transmit the data to the VMS office in Huntington Beach, California, where the data is recorded in the parking citations database.

Weekly, the VMS Huntington Beach office extracts the information on unpaid citations and sends inquiries to the California (as well as other states') Department of Motor Vehicles (DMV). The DMV provides VMS with the names and addresses of the registered owners. With this information, VMS sends delinquency notices to the registered owners of vehicles for which citations have remained unpaid 30 days or more. For citations that remain unpaid for longer periods, VMS initiates vehicle registration holds and other collection actions as described in ATTACHMENT II.

Parking violators send their bail payments to the VMS San Jose office. VMS San Jose staff enter the payment data into their computers and electronically send the information to the VMS office in Huntington Beach, where the information is used to update the records on the paid citations. VMS San Jose staff also deposit the bail payments in a City bank account.

Other functions performed in the VMS San Jose office include resolving citizen complaints regarding parking citations and scheduling municipal court hearings if parking citation recipients so request.

The City Finance Department is responsible for monitoring the parking citations process. The Police Warrants Unit sends the Finance Department copies of the parking citations and of the batch slips, and Finance compares the batch totals to the reports VMS submits. The Finance Department also compares the VMS reported bail payment deposits to the bank's statement of daily deposits.

Other functions the Finance Department performs include:

- 1) recording statistics on the number of citations processed and the parking citations revenues collected, 2) pursuing and collecting payments from parking offenders when the bank returns checks for insufficient funds or other reasons,
- 3) receiving and depositing registration hold payments from the Department of Motor Vehicles, 4) reviewing those citizen complaints VMS does not successfully resolve, and 5) processing payments to VMS for services provided.

### SCOPE AND METHODOLOGY

Our audit of the parking citations process included the period from September 1986 through February 1988. During this period, Vertical Management Systems processed 185,000 citations and collected, along with the City, \$2,612,000.

We tested the processing of parking citations by selecting a sample of 2,675 citations and tracing them to the parking citations database (using the computer terminal at the Finance Department) and to reports of deposits.

We also tested the accounting for blank citation forms by selecting a sample of 400 citation numbers from the Police Department parking citation forms issuance log and tracing the numbers to the citations database and the Police Department records of voided and dismissed citations.

Further, we reviewed the procedures of the Police and Finance Departments, and Vertical Management Systems to determine whether controls are in place to ensure that:

- The parking citations the City and Airport police officers and parking control checkers complete are recorded in the citations database;
- Bail payments are deposited intact in the City's bank account and recorded in the citations database;
- Voidings, dismissals, and other adjustments of citations are properly authorized and recorded in the citations database; and

- The prescribed collection actions, such as delinquency notices and registration holds, are performed on unpaid citations on a timely basis.

As part of our audit, we performed a risk analysis of the parking citations process to determine the potential for losses to the City from the various parking citations process elements. We computed, or estimated, the number of items susceptible to individual threats, the occurrence rates of errors absent any controls, and the average damage magnitude of items susceptible to the threats. We also identified the actual internal and external controls that currently reduce any risks, as well as potential (recommended) controls to reduce the remaining risks not covered by the controls already in place. As a result of our analysis, we were able to estimate the extent recommended controls would benefit the City beyond the cost to implement the control.

The results of our risk analysis are described in this report and presented in threat diagrams starting with ATTACHMENT I-1.

Finally, we prepared flowcharts to document the functions of the Police and Finance Departments and Vertical Management Systems in the parking citations process. These flowcharts are shown as ATTACHMENT II.

During various audit conferences, we presented our findings, risk analyses, and flowcharts to representatives of the Police and Finance Departments and the Vertical Management Systems. Their comments and suggestions are reflected in this report.



## *FINDING I*

### *IMPROVED PROCEDURES FOR COLLECTING PARKING FINES AND PENALTIES FROM HABITUAL OFFENDERS COULD INCREASE REVENUES BY APPROXIMATELY \$430,000 IN 1988-89*

Habitual parking offenders are those owners of vehicles who have accumulated five or more unpaid parking citations. As of March 12, 1988, habitual parking offenders owed the City of San Jose \$1,291,099 in unpaid parking fines and penalties. By implementing additional procedures, we estimate the City could collect an additional \$430,000 from habitual offenders in 1988-89 and \$300,000 per year thereafter. These additional procedures include: 1) a one-time, short-term amnesty program for habitual offenders, 2) using a habitual offender "hot sheet" to identify and impound habitual offender-owned vehicles, and 3) initiating a direct collection effort. In addition, by exploring the possibility of transferring registration liens from one vehicle to another, the City may be able to recoup a portion of the \$759,000 that we estimate to be currently uncollectible.

#### Habitual Parking Offenders

As of March 1988, 4,363 habitual parking offenders owed the City of San Jose \$1,291,099. Of the 4,363 habitual parking offenders, 89 vehicle owners owe the City \$1,000 or more in parking fines and penalties and one offender owes the City

nearly \$9,000. These 89 habitual parking offenders alone owe the City \$146,726 in parking fines and penalties. During the last two quarters, the number of habitual parking offenders increased by 377 or 9.5% and fines and penalties increased by 9.2%. TABLE I shows the number of habitual offenders and the accumulated parking fines and penalties for the previous three quarters.

TABLE I

SUMMARY OF HABITUAL PARKING OFFENDERS  
AS OF SEPTEMBER 1987, DECEMBER 1987 AND MARCH 1988

	<u>September 1987</u>	<u>December 1987</u>	<u>March 1988</u>
Number of Habitual Parking Offenders	3,986	4,199	4,363
Fines and Penalties	\$1,181,788	\$1,252,458	\$1,291,099

Additional Procedures Could  
Increase Collections From  
Habitual Parking Offenders

Based upon our assessment of the City's risk regarding habitual parking offenders, we estimate the City's potential loss to be \$1,265,277 (APPENDIX I-1). Further, we estimate that current procedures reduce that potential loss by only \$75,917. As a result, the City's current uncontrolled loss from habitual parking offenders is \$1,189,360. We have identified three additional procedures that could reduce the City's loss by an estimated \$430,000. TABLE II summarizes these additional procedures, the cost to implement them and their expected benefit.

TABLE II

SUMMARY OF ADDITIONAL PROCEDURES  
TO DEAL WITH HABITUAL PARKING  
OFFENDERS, ASSOCIATED COSTS  
AND EXPECTED BENEFITS

<u>Additional Procedures</u>	<u>Estimated Annual Costs</u>	<u>Estimated Annual Benefits</u>
Amnesty Program	\$38,000	\$126,500*
"Hot Sheet"	2,100	126,500
Direct Collections	<u>4,200</u>	<u>177,000</u>
TOTALS	<u>\$44,300</u>	<u>\$430,000</u>

Amnesty Program

The Finance Department should consider implementing a parking citation amnesty program to provide an incentive for both habitual parking offenders and other non-paying parking offenders to voluntarily pay off their parking fines. Such an amnesty program should be for a limited period and pertain to only late penalties and not the original fines. On April 4, 1988, the Sacramento Bee reported that in St. Paul, Minnesota where an estimated \$2.5 million in parking citations are owed, an amnesty program last year brought in about \$140,000.

Based upon our discussions with City officials and the manager of the processing contractor, we estimate that an amnesty program would cost \$38,000 in clerical and supervision time and publicity expenses but would generate an additional \$126,500 in revenue during the year it is implemented.

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\* One-time benefit only

"Hot Sheet"

Prior to 1987, an officer in the Police Department Parking Control Unit was assigned to patrol the streets and search for vehicles listed in the habitual parking offenders report. If the officer located a listed vehicle, he or she would call one of the City's towing contractors to tow away the vehicle. However, as part of the budget cutbacks in 1987, this officer was assigned elsewhere in the Department. Consequently, the Police Department currently has no staff for an aggressive habitual parking offender program.

The Police Department's records of vehicles towed away shows that the number of vehicles towed away and the amount of fines collected from the vehicle owners has decreased significantly since 1984. Table III summarizes the results of the habitual offenders program from 1984 through 1987.

TABLE III  
SUMMARY OF HABITUAL PARKING OFFENDERS  
VEHICLES TOWED AND FINES  
AND PENALTIES COLLECTED  
DURING 1984, 1985, 1986 AND 1987

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Number of Vehicles Towed	107	30	3	17
Fines and Penalties Collected	\$18,632	\$10,041	\$ -0-	\$10,067
Number of Owners Who Reclaimed Their Vehicles	49	15	-0-	12
Number of Owners Who Did Not Reclaim Their Vehicles	58	15	3	5

During January 1988, six vehicles were towed away and \$1,444 in fines and penalties was collected from four vehicle owners. The remaining two vehicles were unclaimed.

Under current procedures, the Police Department relies on parking control checkers to report the habitual parking offenders they encounter during their routes. When parking control checkers notice a vehicle that they suspect may be in the habitual offender list, they contact their office to verify that the vehicle belongs to a habitual offender. Once confirmed, the parking control checker calls a towing contractor to tow away the vehicle. This is an inefficient procedure because it depends on the checkers to first notice a suspected habitual offender and then follow a potentially time-consuming process to contact their office and verify the listing of the vehicle in the habitual offender report.

The current procedure can be improved by providing each parking control checker with a weekly "hot sheet" of habitual parking offenders showing the license numbers of vehicles that should be towed away. The parking control checkers should be instructed to check the license numbers of vehicles bearing expired registration tags or vehicles that they suspect to be in the habitual offenders list against the hot sheet. The manager of the parking citation processing contractor informed us that the weekly hot sheet could be printed to show license

numbers selected according to various criteria, such as the location of parking offenses, number of unpaid citations, dollar amount of accumulated fines and penalties, or dates of parking offenses. Accordingly, the Police Department can experiment with different selection criteria until the most effective format for the hot sheet is found. We estimate that the use of a weekly "Hot Sheet" would cost an additional \$2,100 per year in additional supervisory hours but will generate an additional \$126,500 per year in revenue.

#### Direct Collections

Of the 4,363 habitual offenders as of March 1988, DMV did not have registered owners on file for 3,054 (70%). The reasons DMV did not have registration information on these vehicle owners include 1) the owner neglected to renew the registration of the vehicle although he or she is still using it, 2) a previous owner sold the vehicle and neither the buyer nor the seller registered the transfer of ownership, or 3) the vehicle was abandoned. DMV will not place a registration hold unless the license number, vehicle description, and registered owner information are available. Therefore, no registration holds have been placed against these vehicles. According to the manager of the parking citation processing contractor, there is no further collection effort being made on these citations.

When we checked with DMV, we were informed that although there are no current registered owners on file for these vehicles, additional research will provide the names of the last registered owners for many of the vehicles. Based upon our review, it appears that, for those vehicles for which the names and addresses of the last registered owners can be obtained, a more direct approach will improve the probability of collection. Such an approach includes sending a personalized letter to the last registered owner. According to a Computil official, that approach has been used successfully in other jurisdictions.

Therefore, for those habitual offender license numbers for which DMV does not have current registered owners on file, the Finance Department should develop procedures to facilitate the processing contractor in obtaining the names and addresses of the last registered owners. Once these names and addresses are obtained, Finance should send each party a strongly worded collection letter. The collection letter should describe the consequences of non-payment, including 1) the possibility of an arrest warrant being issued against the parking offender, and 2) the inconveniences the parking offender will endure should the vehicle be located and towed away. We estimate that this procedure will cost \$4,200 per year in additional clerical time and supplies but will generate an additional \$177,000 per year in revenue.

Additional Procedures May Reduce  
The City's Current \$759,000 In  
Uncollectible Fines And Penalties

As previously noted, unregistered vehicles account for about 70 percent of all habitual parking offenders. However, if the last registered owner can be identified, the City has a potential recourse in pursuing non-paying parking offenders. The recourse involves the transfer of vehicle liens to other vehicles the parking offender owns. The 1986 California Vehicle Code, Article 6, Section 9800, appears to allow such a transfer. The Code states:

"...Payments for any of the following, and any interest, penalties, or service fees added thereto, required to register or transfer the registration of a vehicle, constitute a lien on the vehicle on which they are due or which was involved in the offense, and on any other vehicle owned by the owner of that vehicle: (Emphasis added)

- 1) Registration fees
- 2) Transfer fees
- 3) License fees
- 4) Use taxes
- 5) Penalties for offenses relating to the standing or parking of a vehicle for which a notice of parking violation has been served on the owner."  
(Emphasis added)

The Finance Department should consult with the Office of the City Attorney to determine how the City can take advantage of this code section and develop procedures to effect the transfer of registration liens to other vehicles that non-paying



parking offenders own. By so doing, the City may be able to recoup a portion of the \$759,000 in habitual parking offender fines and penalties that are currently uncollectible.

#### CONCLUSION

As of March 1988, habitual parking offenders owed the City of San Jose \$1,291,099. We estimate that at a cost of \$44,300 the City could collect \$430,000 of that amount by implementing three new procedures. In addition, the City may be able to recoup part of the \$759,000 in habitual parking offender fines and penalties that are currently uncollectible.

#### RECOMMENDATIONS

We recommend that:

##### Recommendation #1:

The Finance Department implement a parking citation amnesty program for habitual parking offenders. (Priority 1)

Recommendation #2:

The Police Department:

- Provide parking control checkers with a weekly license number list of habitual parking offenders (hot-sheet), and
- Instruct parking control checkers to check the hot sheet for the license number of vehicles bearing expired registration tags or vehicles suspected to be habitual parking offender owned vehicles. (Priority 1)

Recommendation #3:

The Finance Department pursue, through a direct collection approach, such as personalized letters, the unpaid parking citation fines and penalties which the City can not collect through vehicle registration liens. (Priority 1)

Recommendation #4:

The Finance Department:

- Consult with the Office of the City Attorney to determine how the City can take advantage of the California Vehicle Code provision allowing the transfer of registration liens for unpaid parking citation fines and penalties to other vehicles the habitual parking offender owns, and
- Develop procedures to effect the transfer of registration liens to the other vehicles the habitual parking offender owns. (Priority 1)

## *FINDING II*

### *CONSISTENT CITINGS FOR EXPIRED REGISTRATIONS COULD INCREASE REVENUES BY \$66,000 PER YEAR*

Our review of the parking citation process revealed that parking control checkers are not consistently citing vehicles for expired registrations. As a result, the City is potentially losing \$66,000 per year in parking fines.

During our review of habitual parking offenders, we noted instances of inconsistent citing for expired registrations. For example, a vehicle license number would have citations for a parking violation three days in a row, but would show a charge for expired registration only on the first and third days. Thus, while the vehicle should have been cited for an expired registration on the second day, it was not.

In our sample test of the habitual offenders report, we noted 99 instances in which vehicles should have been cited for expired registration. In 12 of the 99 instances, vehicles should have been cited for expired registrations but were not.

During 1987, there were 9,136 citations issued for expired registrations. Projecting our sample results to this total, we estimate 1,260 instances during 1987 in which vehicles should have been cited for expired registration, but were not. With the bail for expired registration at \$53, this translates to approximately \$66,000 in potential, but unrealized, revenue for the City. (ATTACHMENT I-2)

One reason parking checkers are inconsistent in citing expired registrations is the absence of a separate box on the current parking citation form to record an expired registration violation. Without a designated box on the citation form, it is inconvenient for parking checkers to cite expired registration violations and easy to overlook as well.

According to the Police Department, the next parking citation form will have a separate box for expired registration violations. This will make it easier for checkers to cite a vehicle for expired registration and will also eliminate confusion in the minds of citation recipients. (See FINDING IV)

In addition to the revised form, the Police Department should instruct parking control checkers to verify registration status from the rear license plate when they issue parking citations. This will improve the chances that Parking Checkers will observe expired registrations when they are issuing parking citations. We estimate the cost for implementing these procedures is minimal but will result in a potential gain of \$66,000 a year in additional revenue.

#### CONCLUSION

Parking citation form inadequacies and the lack of specific instructions have caused parking checkers to inconsistently

cite vehicles for expired registrations. By implementing additional procedures, the City could increase revenues by an estimated \$66,000 per year.

RECOMMENDATION

We recommend that:

Recommendation #5:

The Police Department:

- Revise the parking citation form to show a separate box and bail amount for expired registrations, and
- Instruct parking control checkers to verify registration status from the vehicle's rear license plates when they issue parking citations.  
(Priority 1)

### FINDING III

#### IMPROVED ACCOUNTING, MONITORING AND RECONCILIATION PROCEDURES COULD INCREASE PARKING CITATION REVENUES BY AN ESTIMATED \$114,000 PER YEAR

Our review of the parking citation process revealed that City controls over the process can be improved. Specifically, the Police and Finance Departments can improve their parking citation accounting, monitoring and reconciliation procedures to ensure that 1) blank citation forms are accounted for, 2) citations are entered into the citation database, 3) payments are deposited intact into the City's bank account, 4) voidings and other adjustments are approved and recorded, and 5) collection actions are performed in a timely manner. In addition, with improved controls, the Finance Department will be better able to assess the processing contractor's collection rate and timeliness of processing delinquency notices and registration holds. We estimate that these recommended additional controls will cost \$20,600 per year to implement and could increase the City's parking citation revenues \$114,400 per year.

#### Additional Controls

Our review of the parking citation process revealed several opportunities to improve controls and generate additional revenues. These opportunities include 1) using a 4-part parking citation form, 2) reconciling the citations delivered

to the processing contractor, 3) reconciling daily deposits of parking fines and penalties, 4) reviewing dismissed and voided parking citations, and 5) reconciling delinquency notices to delinquent parking citations. We estimate these additional controls will cost \$20,600 per year to implement but will increase potential revenues by \$114,400 per year. TABLE III summarizes the cost and revenue generating potential of these additional parking citation processing controls.

TABLE III

SUMMARY OF COST AND REVENUE  
GENERATING POTENTIAL OF ADDITIONAL  
PARKING CITATION PROCESSING CONTROLS

<u>Additional Controls</u>	<u>Estimated Annual Costs</u>	<u>Estimated Annual Benefits</u>
4-Part Citation	\$ 7,800	\$ 15,200
Reconcile Citations Delivered	3,800	15,200
Reconcile Daily Deposits	3,800	10,300
Review Dismissals or Voidings	1,400	5,800
Reconcile Delinquency Notices	<u>3,800</u>	<u>67,900</u>
TOTALS	<u>\$20,600</u>	<u>\$114,400</u>

4-Part Citation

The Police Central Supply currently maintains a requisition log on which are recorded the citation numbers, the date of issuance of blank forms, and the officer or parking control checker badge number. However, this log is not reconciled to

the completed or voided citations the officers or parking control checkers return. Consequently, there is no internal control to assure that all completed citations are returned for processing.

We tested the requisition log by tracing a sample of 400 citation forms issued in April 1987. Of the 400 citation forms in our sample, 127 had not been processed as of December 1987. Of these 127 forms, 119 were reported as having been returned to Police Central Supply. The remaining 8 citation forms had unknown dispositions and are presumed lost.

These 8 citations represent 2% of our audit sample. Based on 121,000 total citations processed for the year, we estimate that lost citations approximate \$41,140 in fines and penalties per year. (ATTACHMENT I-3)

An external control does currently operate to help mitigate this \$41,140 loss. This external control is the instructions on the citation form and the expectation that the citation recipient will pay the parking fine without waiting for a delinquency notice. In other words, even if the issuing officer or checker fails to turn in the citation copy for processing, a certain percentage of parking violators will pay their fine regardless. We estimate that this control eliminates \$25,918 of our estimated loss, leaving \$15,222 in uncontrolled losses.



A control that we discussed with Police Department representatives is the use of a 4-part citation form and Department reconciliation of blank citation forms issued. Specifically, the Police Department can convert the current 3-part parking citation form to a 4-part form when the current supply of citation forms is exhausted. Procedures can then be changed to require police officers and parking control checkers to return the used citation booklet with the fourth copy of the citations intact when new booklets are requisitioned. In addition, the officer or checker should sign a requisition log for the new booklet. The physical return of the fourth copy of the citation will serve as an automatic control to account for the usage of blank citation forms issued. To complete the control cycle, the Police Department should follow-up on unreturned citation booklets after a reasonable time to determine their disposition.

We estimate that this control will cost \$7,840 in printing and administration expenses but will benefit the City by increasing revenues by \$15,222. We estimate that this control, coupled with the external control, will help ensure that all issued citations are turned in for processing.

### Reconcile Delivered Citations

Under current procedures, an accountant in Finance compares totals from Police citation batch slips to a report from the parking citation processing contractor. However, the processing contractor's report shows citations grouped by date of issuance rather than by Police batches or by date of processing. Consequently, the Police Department batch slips are not directly comparable to the processing contractor's reports. Further, the Finance accountant does not pursue any unreconciled differences.

Our test of citations showed that this lack of reconciliation has resulted in missing citations not being detected. We selected a sample of 2,675 citations the Police Department batched in April 1987 and traced them to the contractor's citations database. Of the 2,675 citations, 5 were not recorded in the database. These 5 citations were not detected as missing before our audit test.

Based upon our sample results, we estimate that nonprocessed parking citations approximate \$41,140 in fines and penalties per year. (ATTACHMENT I-4)

The same external control that reduces losses from citations not being turned-in also operates to mitigate the \$41,140 per year loss from unprocessed citations. We estimate that this control eliminates \$25,918, leaving \$15,222 in potential losses.

The Finance Department should develop and implement reconciliation procedures to 1) determine whether all the citations the Police Department delivers to the parking citation processing contractor are recorded in the citations database, 2) determine the reason for any differences noted, and 3) make appropriate adjustments to the citations database to reflect the correct amounts.

To implement this reconciliation, Finance should request a report from the parking citation processing contractor (Item 1 of ATTACHMENT III). This report can be used to reconcile the citation batch slips the Police Department prepares to the citations the processing contractor processes. A detail listing of the citation numbers will enable the Finance Department to identify any missing citations.

We estimate that this control will cost \$3,840 annually in accounting staff hours but will benefit the City by potentially increasing revenues by \$15,222 annually. This control, coupled with the current external control, should eliminate the estimated

\$41,140 per year loss and help ensure that the processing contractor processes all the citations the Police Department submits.

#### Reconcile Daily Deposits

Under current procedures, an accountant in Finance maintains a daily record of citation deposits and compares the amounts to the daily collections shown in a report the parking citation processing contractor prepares. The accountant computes and records any differences noted but does not pursue all the differences noted to determine the cause.

We reviewed the record of citation deposits from March 1987 through December 1987. Of the 209 daily entries during the period reviewed, 125 entries showed differences between the deposits and the collections the processing contractor reported. Total differences in which the deposits exceeded the reported collections were \$182,110. It should be noted that if the contractor did not update its citation database for these \$182,110 in collections, the contractor may have sent delinquency letters to citizens who had, in fact, paid their parking fines. We also noted instances where the processing contractor's reported collections exceeded the monies the contractor deposited into the City's bank account. The difference between reported collections and deposits in these instances was \$15,398.

According to the Finance Department accountant, most of the \$182,110 and \$15,398 in differences shown above were the result of the City making direct deposits or timing differences between reporting dates and deposit dates. While the Department accountant's explanation addresses most of our observed differences, we did note 21 differences which could not be explained. These differences ranged from \$1 to \$465 and totalled \$1,168.

We estimate the City's potential risk from undeposited collection to be \$205,700 (ATTACHMENT I-5). The main control to mitigate this loss is the contract requirement that the processing contractor make daily deposits of collections directly into a City bank account. We estimate that this control eliminates \$185,130 of the City's potential loss. We also estimate that Finance Department's procedures for the review of payments and deposits eliminates another \$10,285 of potential loss. The remaining \$10,285 is an uncontrolled loss.

The Finance Department should implement a reconciliation procedure to 1) determine whether the processing contractor's reported citation payments agree with the amounts the bank acknowledges, 2) determine the reason for any differences noted, and 3) make appropriate adjustments to the citations database to reflect the correct amounts. To implement this

reconciliation, Finance should request the parking citation processing contractor to provide the report described in Item 2 of ATTACHMENT III. Finance can use this report to reconcile the daily deposits shown in the City's bank statements to the citation payments the processing contractor reports. Specifically, the detailed listing of the citation numbers in this report will enable Finance to identify any missing payments. As a result, the City can readily determine whether payments recorded in the citations database agree with the amounts deposited in the City's bank account. We estimate that this control will cost \$3,840 annually in accounting staff hours but will benefit the City by increasing potential revenues by \$10,285 per year.

#### Review Dismissals Or Voidings

The San Jose Police Department, Finance Department, the Santa Clara Municipal Courts, and the processing contractor can all initiate citation dismissals, voidings, and other adjustments. The parking citation processing contractor is responsible for recording the dismissals, voidings, and other adjustments in the citations database. The agreement between the City and processing contractor also requires the contractor to ensure that these adjustments are properly authorized. Sections 1.10 and 1.11 of the agreement requires the contractor to maintain records of Notices of Court Issued Reductions or

Dismissals, as well as records of City requested suspensions of processing for specific citations. Section 1.12 further requires the contractor to update the citations database at least three times a week for new citations, payments, reductions, cancellations, dismissals and any other pertinent data.

The San Jose Police Department prepares a list of voided citations and provides a copy of the list to the Finance Department and the processing contractor. The Finance Department also prepares a list of adjustments and supplies the contractor with a copy of the list. However, the Finance Department performs no reconciliation or review to ensure that all dismissals, voidings, and other adjustments are properly authorized and timely recorded. Such a reconciliation is critical in view of the lack of segregation of duties in the receipt and recording of payments, and the resolution of citizen complaints. Under current procedures, the processing contractor does all three functions. It is theoretically possible, therefore, for an employee of the contractor to pocket cash payments and then void the citation.

In our test of citations, we found 28 voided citations out of 2,675 citations sampled. Of the 28 voided citations, 3 were not supported by notices or authorizations from either the Police or Finance Departments or the Municipal Court. Supporting

documentation for these 3 voided citations indicates that the citation recipients requested the citation voidings. Further, it appears that the contractor's staff made the voidings without prior, or subsequent, City Police or Finance Department review.

Based upon our analysis, we estimate that the City's exposure from unauthorized dismissals or voidings is \$29,240 per year (ATTACHMENT I-6). To mitigate this potential loss, the processing agreement requires the processing contractor to obtain voiding authorization from the City or the County Municipal Court and to retain the documents for such authorization. We estimate that this control eliminates \$23,392 of potential losses, leaving \$5,848 in uncontrolled losses.

The Finance Department should develop and implement review procedures to determine whether citation dismissals, voidings, and other adjustments are authorized and properly recorded in the citations database. To implement this reconciliation, the Finance Department should request a report described in Item 3 of ATTACHMENT III from the parking citation processing contractor. Finance can use this report to reconcile the adjustments recorded in the database to Municipal Court, Police and Finance Department authorized dismissals, voidings, and other adjustments. This reconciliation process should compensate for the lack of segregation of duties in the receipt and recording of payments and the resolution of citizen



complaints. In addition, this process will ensure that all dismissals, voidings, and other adjustments recorded in the database are properly authorized. We estimate that this control will cost \$1,440 annually in accounting staff hours but will benefit the City by increasing potential revenues \$5,800 per year.

#### Reconcile Delinquency Notices

The agreement between the City and the processing contractor requires the contractor to 1) generate and mail delinquency notices to all identified registered owners of vehicles with past-due citations of 30 to 60 days, 2) request from the Department of Motor Vehicles the registration holds on California vehicles with parking citation fines and penalties which remain unpaid 75 days or more, and 3) send collection letters to registered owners of out-of-state vehicles with parking citation fines and penalties which remain unpaid 60 days or more.

The processing contractor documents compliance with these requirements through appropriate status codes in the citations database. The Finance Department has access to the contractor's citation database through a computer terminal and the Finance accountant can review the status of individual citations. However, the Finance Department does not systematically reconcile or review the citation database to ensure that the processing contractor has complied with all the delinquency notice, registration hold or collection letter requirements, or that the contractor's collection efforts are effective.

During our review of 252 citations from the January 1988 habitual offender report, we found 83 delinquent citations for which no late penalty amounts had been added to the original fines. This indicates that the processing contractor did not send required delinquency notices for approximately one-third of the citations. Apparently, because of its financial difficulties, the processing contractor encountered numerous delays in the processing and mailing of delinquency notices.

Based upon our sample results, we estimate that the City's potential loss from delinquency notices not being mailed is \$678,810 per year (ATTACHMENT I-7). The main control to mitigate this potential loss is the computerized preparation and mailing of delinquency notices. We estimate that this

control eliminates \$543,048 of potential losses. We also estimate that current Finance Department procedures for the review of citation processing eliminates another \$67,881 of potential losses. The remaining \$67,881 is potential lost annual revenue.

According to Finance Department officials, the Department was aware not only that the processing contractor was experiencing problems in mailing delinquency notices, but also that it was slow in recording citation payments. Finance Department staff became aware of these problems when they noted that the processing contractor was not charging some penalty amounts that it should have for certain citations and that citizens were complaining increasingly that they were receiving delinquency notices long after they had paid their fines.

While current procedures can alert the Finance Department to the existence of processing problems, they do not provide a perspective of the magnitude of any problem or a basis for assessing if the processing contractor is improving. In our opinion, the timely processing of delinquency notices, registration holds, and collection letters is a critical function if parking citation collections are to be maximized. Accordingly, it is critical that the Finance Department be able to evaluate the processing contractor's performance of these functions. The Department's reconciliation of delinquent

citations to delinquent notices, registration holds, and collection letters would provide the control necessary to ascertain that the processing contractor has performed appropriately and that collection actions for all delinquent citations have been timely.

By requesting the parking citation processing contractor to provide the report described in Item 4 of ATTACHMENT III, the Finance Department can reconcile delinquent citations to delinquent notices, registration holds, and collection letters. Thus, the Department will be able to 1) keep track of the number of unpaid citations by age group, 2) make comparisons of delinquencies from quarter to quarter, 3) assess whether the delinquency level is improving or deteriorating, 4) monitor the processing contractor's compliance with prescribed collection actions, 5) determine the reasons for any observed processing contractor non-compliances, and 6) determine for which citations further collection actions or write-offs are appropriate.

We estimate that the above controls will cost \$3,840 annually in accounting staff hours but will benefit the City by increasing potential revenues by \$67,881 annually. In addition, the combined effect of the existing controls and the recommended control will eliminate the potential revenue loss from this threat and help ensure that delinquency notices are sent for all delinquent citations for which the recipient name and address can be obtained.

## CONCLUSION

By using a 4-part citation form, reconciling citations delivered to the processing contractor, reconciling daily parking citation deposits, reviewing citation dismissals and voidings, and reconciling delinquency notices to delinquency citations, the City can improve its accounting and monitoring over the parking citation process. These additional controls will cost approximately \$20,600 per year to implement but will improve service to the public and increase potential revenues by as much as \$114,400 per year.

## RECOMMENDATIONS

We recommend that:

### Recommendation #6:

The Police Department :

- Convert the 3-part parking citation form to a 4-part form when the current supply of citation forms is exhausted,
- Require police officers and parking control checkers to return used citation booklets with the fourth copy intact when requisitioning new booklets and to sign a requisition log for new booklets, and
- Follow-up on unreturned citation booklets after a reasonable time to account for the usage or disposition of citation forms. (Priority 1)

Recommendation #7:

The Finance Department develop and implement reconciliation procedures to:

- Determine whether all the citations the Police Department delivers to the parking citation processing contractor are recorded in the citation database,
- Determine the reasons for any differences noted, and
- Make appropriate adjustments to the citation database to reflect the correct amounts. (Priority 1)

Recommendation #8:

The Finance Department develop and implement reconciliation procedures to:

- Determine whether the processing contractor reported citation payments that agree with the amounts the bank acknowledges,
- Determine the reasons for any differences noted, and
- Make appropriate adjustments to the citation database to reflect the correct amounts. (Priority 1)

Recommendation #9:

The Finance Department develop and implement reconciliation procedures to determine whether citation dismissals, voidings, and other adjustments are authorized and properly recorded in the citation database. (Priority 2)

Recommendation #10:

The Finance Department develop and implement reconciliation procedures to determine whether appropriate and timely collection actions are performed on all delinquent citations.  
(Priority 1)

#### *FINDING IV*

##### *STEPS NEED TO BE TAKEN TO ELIMINATE CONFUSION OVER "FIX-IT" VIOLATIONS ON PARKING CITATIONS*

Confusion exists over expired-registration and other non-parking violations such as bald tires and broken headlamps. These are collectively referred to as "fix-it" violations. Confusion arises because of questions about the legality of including fix-it violations on the parking citation form and because of citation form inadequacies. According to the Police Department, this confusion has led to numerous citation recipient complaints.

According to representatives of the Police Department Traffic Enforcement Unit, citing fix-it violations on the parking citation form causes confusion because fix-it violations are technically not parking violations. However, the City of San Jose and other jurisdictions in Santa Clara County include fix-it violations on their parking citations and instruct their parking control checkers to cite vehicles for these violations.

The Police Department Warrants Unit segregates citations showing fix-it violations only and sends them to the Municipal Court for processing. The Unit sends those citations showing both fix-it and parking violations to the processing contractor. According to the Police Traffic Enforcement Unit, no citation recipient has yet questioned the legality of a charge for a fix-it violation.



Another source of confusion for fix-it violations is the absence on the citation form of the amount of bail the offender is to pay or of clear instructions regarding how to pay the fine. When citing a vehicle for a fix-it violation, parking control checkers sometimes do not indicate on the citation form the bail amount for the fix-it violation. When the amount is not indicated, the citation recipient has to call the processing contractor to find out the bail amount for the fix-it violation. On occasion, citation recipients send payments for the parking violation fine only, apparently assuming that no payment is due for the fix-it charge. The processing contractor considers such payments as partial payments only and issues a delinquency notice for the remainder. According to the Police and Finance Departments, this type of delinquency notice has generated numerous complaints and inquiries from citizens.

To reduce or eliminate the confusion regarding the citation for fix-it violations, we recommend that the Police Department 1) consult with the Office of the City Attorney regarding the legality of charging fix-it violations through the parking citation process, and 2) include on the citation form specific penalty information for fix-it violations and what action the vehicle owner should take to clear the violation.

## CONCLUSION

The practice of including fix-it violations on parking citations is of questionable legality and causes considerable confusion for citizens. The Police Department should take steps to ascertain the legality of including fix-it violations on parking citations and improve the parking citation form.

## RECOMMENDATION

We recommend that:

### Recommendation #11:

The Police Department reduce or eliminate the confusion regarding fix-it violations on parking citations by:

- Consulting with the Office of the City Attorney regarding the legality of charging fix-it violations through the parking citation process, and
- Including on the citation form specific penalty information for fix-it violations and what action the vehicle owner should take to clear the violation. (Priority 3)

## FINDING V

### *THE CITY IS EXPOSED TO RISK BECAUSE THE PROCESSING CONTRACTOR HAS NOT PROVIDED REQUIRED CERTIFICATES OF INSURANCE OR FIDELITY AND PERFORMANCE BONDS*

As part of our audit, we reviewed the agreement between the City of San Jose and Vertical Management Systems, Inc. for compliance. We noted that VMS had not provided the City with required certifications of bodily injury, property damage, or Workers' Compensation Insurance. In addition, VMS had not filed the required fidelity and performance bonds. As a result, the City is exposed to risk to the extent parking citation processing liabilities or losses occur.

Under its agreement with the City, VMS was required to provide the City with a Certificate of Insurance from its insurer before September 15, 1986 for 1) bodily and personal injury and property damage with a \$1,000,000 liability limit, and 2) Workers' Compensation for all of VMS' employees. VMS never provided such certification to the City. In March 1988, West-Computil did provide the City a Certificate of Insurance covering bodily and personal injury and property damage with a \$1,000,000 liability limit, retroactive to October 1, 1986. However, the certificate West-Computil provided to the City only pertains to the contract assigned by VMS to Computil Corporation from VMS. Since the City has not yet approved the contract assignment, it is uncertain whether the City currently has insurance coverage with regard to the parking citation process.

We also found that the City allowed VMS to process the City's parking citations since September 1986, even though VMS never filed required fidelity and performance bonds. Under the agreement, VMS was required to file with the City, before or within 90 days of commencement, 1) a fidelity bond covering employee theft and mysterious disappearance for \$250,000, and 2) a performance bond in the amount of \$150,000. VMS never filed the required bonds with the City. In March 1988, West-Computil provided the City a performance bond in the amount of \$150,000. However, the bond named West-Computil as principal and referred to a contract period from April 19, 1988 to September 15, 1988. As a result, West-Computil has not provided the required fidelity bond. Further, the performance bond it has provided may not be effective unless the City assigns the agreement to West-Computil.

Without the insurance coverage, the City is not protected from major liability or losses that could arise from the parking citation process. Accordingly, the Finance Department should ascertain that the processing contractor has provided all the required performance bonds and other insurances for the period specified in its agreement with the City.

### CONCLUSION

Vertical Management Systems did not provide the City with required certificates of liability and Workers' Compensation insurance or fidelity and performance bonds. While West-Computil has provided required Certificates of Insurance and a performance bond, they are of questionable validity until the City assigns the citation processing contract to West-Computil. In addition, West-Computil has not provided the required fidelity bond. As a result, the City is exposed to risk to the extent parking citation processing liabilities or losses occur.

### RECOMMENDATION

We recommend that:

#### Recommendation #12:

The Finance Department ascertain that the processing contractor has acquired all the required performance bonds and other insurances for the period specified in its agreement with the City. (Priority 1)

*OTHER PERTINENT INFORMATION*

*PARKING CITATION COLLECTIONS RATE  
APPEARS TO HAVE DETERIORATED*

The parking citation collections rate under Vertical Management Systems, from February 1987 through January 1988, appears to have deteriorated as compared to the collections rate under Datacom, from July 1985 through August 1986. The "collections rate" refers to the ratio of the number of citations paid to the number of citations processed. Table IV compares the citations processed, citations paid, and revenues remitted by Datacom and VMS.

TABLE IV

**COMPARISON OF CITATIONS PROCESSED, CITATIONS PAID,  
COLLECTIONS RATES, AND REVENUES REMITTED BY  
DATACOM AND VERTICAL MANAGEMENT SYSTEMS**

Processing Contractor	Period <sup>1</sup>	MONTHLY AVERAGE		
		Citations Processed	Citations Paid	Collections Rate
Datacom	02/86 - 07/86	9,897	8,998	91%
VMS	02/87 - 01/88	10,443	7,152	68%
Difference		546	<1,846>	
Percent		6%	<21%>	
				2%
				\$ 2,548
				153,048
				\$150,500

1. To contrast more clearly the processing and payment data between VMS and Datacom, the table above excludes the transition months from August 1986 through January 1987, during which the processing work of VMS and Datacom overlapped.

Source: San Jose Finance Department Records

As TABLE IV shows, the monthly average of citations processed increased by 6 percent under VMS, but the monthly average of paid citations decreased by 21 percent and the monthly average of revenues collected increased by only two percent.

One possible explanation for the decrease in the collections rate shown in TABLE IV is the inclusion of delinquent payments in paid citations averages. In other words, any citations reported as paid in one month that were actually processed in a previous month will distort monthly averages. It is possible that Datacom reported more delinquent payments than did VMS. Since a separate record was not kept of the delinquent payments under either Datacom or VMS, we were unable to adjust our calculations for the effect of delinquent payments.

Another possible explanation for the decrease in the collections rate may be VMS' failure to report all citation payments. For example, during the period of our audit, Finance identified that parking citation deposits exceeded VMS' reported collections by \$182,110. These deposit differences represent citation payments that VMS or the City deposited into the City's bank account but which VMS did not include in the citation payments report.



A third possible explanation for the decrease in the collection rate is the delays that VMS experienced in processing and mailing delinquency notices in 1987. This coincides with the time VMS was experiencing financial difficulties. Because of VMS' delays in the mailing of delinquency notices, the collections rate under VMS may have decreased relative to Datacom's rate.

There may be other explanations for the deterioration of the parking citation collections rate under VMS. However, we were unable to ascertain their magnitude and effect because of inadequate recordkeeping and reconciliation procedures. For example, the number of citations that were voided or dismissed after the contractor initially processed them may have increased in 1987 as compared to prior years. We determined that an average of 141 citations per month were voided or dismissed during the period under VMS. However, because data for the prior years are unavailable, we were unable to compute the average for the period when Datacom was the processing contractor.

CITY OF SAN JOSE - MEMORANDUM

TO: Gerald Silva  
City Auditor  
SUBJECT: AUDIT OF THE PARKING CITATION  
PROCESS REVIEW AND COMMENT

FROM: Susan E. George  
Director of Finance  
DATE: June 3, 1988

RECEIVED

APPROVED

DATE

JUN 7 1988

BACKGROUND

CITY AUDITOR

The draft report on the Audit of the Parking Citations Process has been reviewed by staff of the Police and Finance Departments. In general, the findings and recommendations of the City Auditor reflect either sound management practice or are innovative ways to attempt to increase parking fine revenues. The Administration concurs with all twelve recommendations.

The Director of Finance has placed on the June 21, 1988 Council Agenda the recommended assignment of the Vertical Management System's (VMS) agreement to West-Computil, Inc.. Throughout this audit process and during the acquisition period of VMS by West-Computil, West-Computil has been cooperative and helpful. It is the Administration's belief that implementation of the City Auditor's recommendations will be facilitated by West-Computil.

DISCUSSION

RECOMMENDATION 1:

"The Finance Department implement a parking citation amnesty program for habitual parking offenders."

RESPONSE:

The Finance Department recently conducted a successful amnesty program for persons who had failed to pay their business license tax and will undertake a review of the feasibility of extending such a program to the Parking Citations Program. We feel that a well-publicized towing program should be implemented in conjunction with an amnesty program. The Finance Department will prepare a workplan for the implementation of this recommendation.

RECOMMENDATION 2:

"The Police Department:

- Provide parking control checkers with a weekly license number list of habitual parking offenders (hot-sheet), and
- Instruct parking control checkers to check the hot sheet for license number of vehicles bearing expired registration tags or vehicles suspected to be habitual parking offender owned vehicles."

RESPONSE:

The Police Department fully concurs with this recommendation. Once the assigned agreement with Computil - West is in place or another vendor selected, staff will work with the citation processing firm to develop the necessary information.

re: AUDIT OF THE PARKING CITATION PROCESS

RECOMMENDATION 3:

"The Finance Department instruct the parking citation processing contractor to pursue, through a direct collection approach, such as personalized letters, the unpaid parking citation fines and penalties which the City can not collect through vehicle registration liens."

RESPONSE:

The Finance Department concurs and will work with the vendor to implement this recommendation.

RECOMMENDATION 4:

"The Finance Department:

- Consult with the Office of the City Attorney to determine how the City can take advantage of the California Vehicle Code provision allowing the transfer of registration liens for unpaid parking citation fines and penalties to other vehicles the habitual parking offender owns, and
- Develop procedures to effect the transfer of registration liens to the other vehicles the habitual parking offender owns."

RESPONSE:

The Finance Department concurs and will work with the City Attorney.

COMMENT ON RECOMMENDATIONS 1-4

The Administration agrees that the recommendations of the City Auditor could generate sufficient revenue to make implementation of these programs worthwhile. It is important to note, however, that the current liability of habitual parking offenders of \$1,291,099 has been accruing since 1978 and that a five-year statute of limitations applies. The Finance Department cautions against high revenue recovery expectations from this delinquent base.

RECOMMENDATION 5:

"The Police Department:

- Revise the parking citation form to show a separate box and bail amount for expired registrations, and
- Instruct parking control checkers to verify registration status from the vehicle's rear license plates when they issue parking citations."

RESPONSE:

This change was implemented at the suggestion of the Finance Department when citation books were recently reprinted.

It should be noted that the \$66,780 in potential, but unrealized, revenue from uncited expired registrations is a maximum estimate. Citations for expired citations can be "fixed" by presenting proof of registration within forty-five days of citation issuance. Citations disposed of in this manner would decrease the potential revenue base.

re: AUDIT OF THE PARKING CITATION PROCESS

RECOMMENDATION 6:

"The Police Department:

- Convert the 3-part parking citation form to a 4-part form when the current supply of citation forms is exhausted,
- Require police officers and parking control checkers to return used citation booklets with the fourth copy intact when requisitioning new booklets and to sign a requisition log for new booklets, and
- Follow-up on unreturned citation booklets after a reasonable time to account for the usage or disposition of citation forms."

RESPONSE:

The Police and Finance Departments concur.

RECOMMENDATION 7:

"The Finance Department develop and implement reconciliation procedures to:

- Determine whether all the citations the Police Department delivers to the parking citation processing contractor are recorded in the citation database,
- Determine the reasons for any differences noted, and
- Make appropriate adjustments to the citation database to reflect the correct amounts."

RESPONSE:

The Finance Department concurs and will incorporate this into the departmental workplan.

RECOMMENDATION 8:

"The Finance Department develop and implement reconciliation procedures to:

- Determine whether the processing contractor reported citation payments that agree with the amounts the bank acknowledges,
- Determine the reasons for any difference noted, and
- Make appropriate adjustments to the citations database to reflect the correct amounts."

RESPONSE:

The Finance Department concurs and will incorporate this into the departmental workplan.

## re: AUDIT OF THE PARKING CITATION PROCESS

RECOMMENDATION 9:

"The Finance Department develop and implement reconciliation procedures to determine whether citation dismissals, voidings, and other adjustments are authorized and properly recorded in the citations database."

RESPONSE

The Finance Department concurs and will incorporate this process into its workplan.

RECOMMENDATION 10:

"The Finance Department develop and implement reconciliation procedures to determine whether appropriate and timely collection actions are performed on all delinquent citations."

RESPONSE:

The Finance Department concurs. Although the Finance Department has included provisions regarding timely collection actions on delinquent accounts in agreements with citation processing contractors, has monitored performance of these provisions and has notified contractors when circumstances indicate that performance is not as expected, the process is subject to improvement. The departmental workplan will be amended to reflect this task.

RECOMMENDATION 11:

"The Police Department reduce or eliminate the confusion regarding fix-it violations on parking citations by:

- Consulting with the Office of the City Attorney regarding the legality of charging fix-it violations through the parking citation process, and
- Including on the citation form specific penalty information for fix-it violations and what action the vehicle owners should take to clear the violation."

RESPONSE:

At the previous recommendation of the Finance Department, the Police Department added a box to the parking citation form specifically listing "expired registration" or "failure to display registration tags" violation numbers. At issue is whether a parking control officer can cite a legally parked vehicle that appears to be unregistered. The Police Department will consult with the City Attorney on this issue.

re: AUDIT OF THE PARKING CITATION PROCESS

RECOMMENDATION 12:

"The Finance Department ascertain that the processing contractor has acquired all the required performance bonds and other insurances for the period specified in its agreement with the City."

RESPONSE:

The Finance Department concurs. The previous contractor, Vertical Management Systems was given 90 days to process such bonds. VMS was unable to acquire these policies in a timely fashion. West Computil, the company that acquired VMS, has such bonds in effect and has provided them to San Jose in spite of the fact that San Jose has no agreement with West Computil.

CONCLUSION

The Administration is in agreement with the City Auditor's recommendations and will prepare an implementation plan for both the Finance and Police Departments. Although the Finance Department is more conservative in estimating potential revenue from the various recommended actions, the ability to enhance both the collection process and the level of revenues is clear. The Auditor's review and recommendations are welcome.

  
SUSAN E. GEORGE  
Director of Finance

SEG/rp  
3367F

cc: Les White  
Chief McNamara

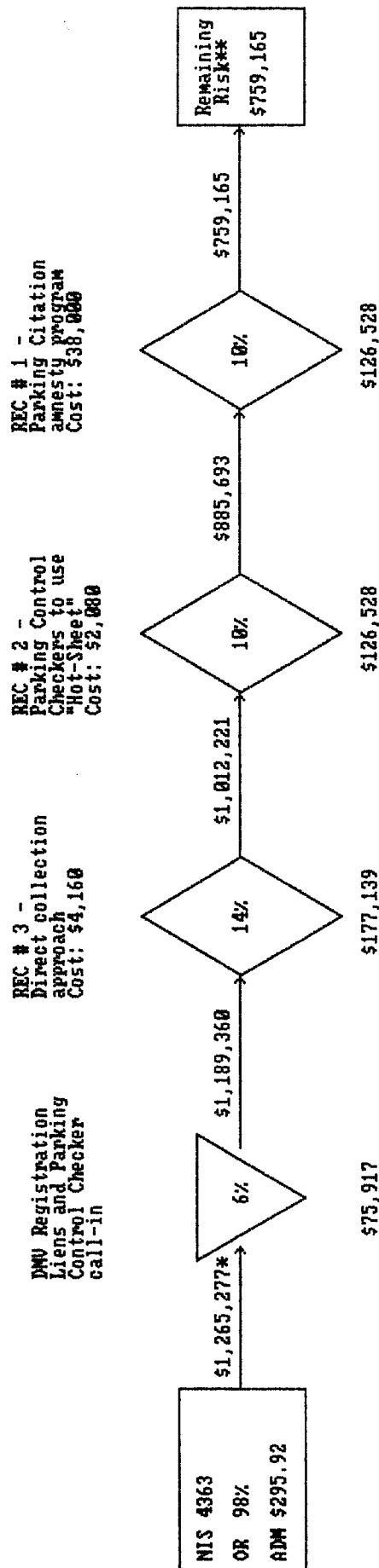
# ATTACHMENT I-1

## AUDIT OF THE PARKING CITATIONS PROCESS

### THREAT DIAGRAM

#### HABITUAL PARKING OFFENDERS

THREAT: Habitual parking offenders may be able to avoid paying citation fines and penalties.



NIS - Number of Items Susceptible (License Nos., Aug 1978 - Mar 1988)

OR - Occurrence Rate of Non-payment Absent Any Controls

ADM - Average Damage Magnitude

\* The inherent risk (\$1,265,277) was computed by multiplying NIS by ADM (4363 x 295.92 = 1,291,099) and multiplying the result by OR (1,291,099 x .98 = 1,265,277). \$1,291,099 represents the value of unpaid fines and penalties of habitual parking offenders as of March 12, 1988.

\*\* The remaining risk of \$759,165 represent amounts that may be uncollectible because a) the vehicle may have been abandoned and the ownership no longer traceable, or b) the unpaid citation may have aged beyond the applicable statute of limitation.

# ATTACHMENT I-2

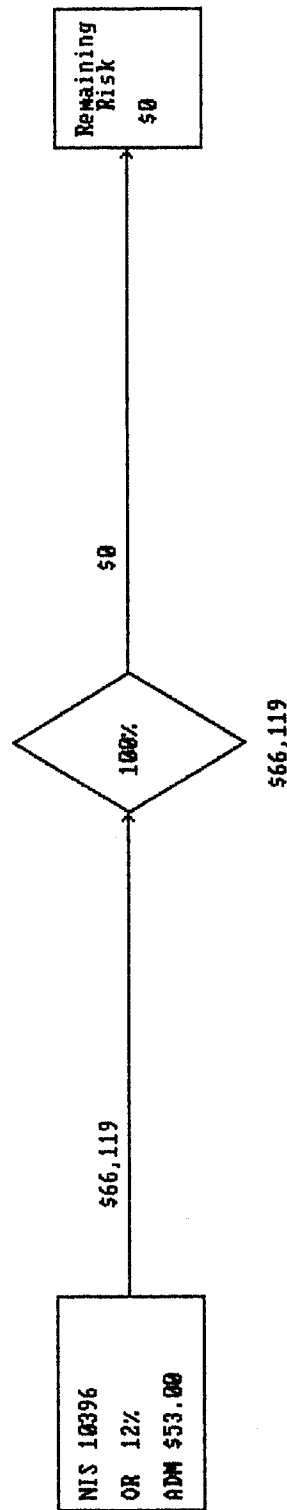
## AUDIT OF THE PARKING CITATIONS PROCESS

### THREAT DIAGRAM

#### CITING FOR EXPIRED REGISTRATION

THREAT: Parking control checkers may fail to cite vehicles with expired registration.

REC # 5 - Use revised citation form showing separate box and bail amount for expired registration; instruct parking control checkers to check rear license plates when issuing citations.  
Cost: \$2,080



NIS - Number of Items Susceptible (Citations)  
OR - Occurrence Rate of Errors Absent Any Controls  
ADM - Average Damage Magnitude



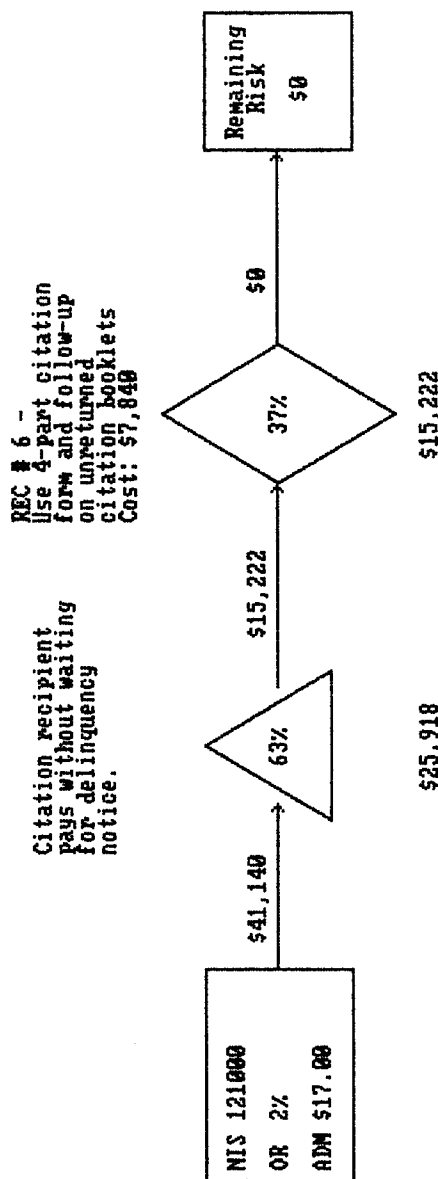
# ATTACHMENT I-3

## AUDIT OF THE PARKING CITATIONS PROCESS

### THREAT DIAGRAM

#### RECONCILIATION OF BLANK CITATION FORMS

THREAT: Blank citations issued to officers and checkers but not accounted for may not be detected.



NIS - Number of Items Susceptible (Citations)

OR - Occurrence Rate of Errors Absent Any Controls

ADM - Average Damage Magnitude

# ATTACHMENT I-4

## AUDIT OF THE PARKING CITATIONS PROCESS

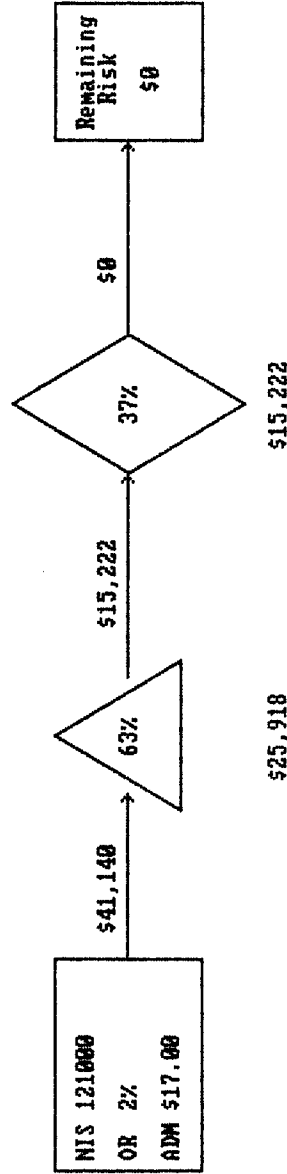
### THREAT DIAGRAM

#### RECONCILIATION OF PROCESSED CITATIONS

THREAT: Citations batched by the Police Department but not processed by processing contractor may not be detected.

REC # 7 -  
Finance Department  
reconciliation  
Cost: \$3,840

Citation recipient  
pays without waiting  
for delinquency  
notice.

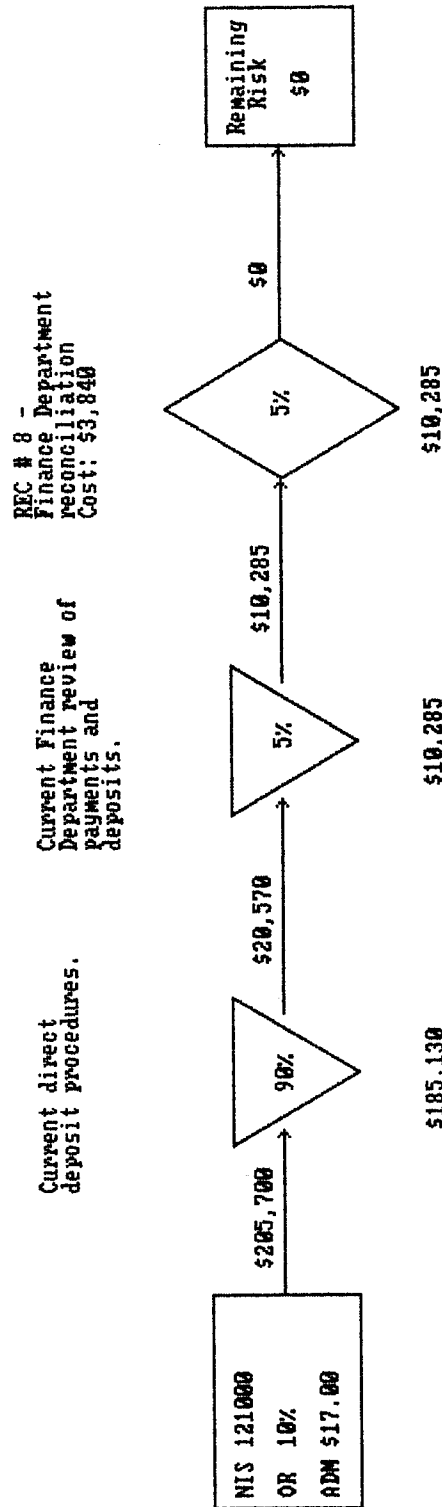


NIS - Number of Items Susceptible (Citations)  
OR - Occurrence Rate of Errors Absent Any Controls  
ADM - Average Damage Magnitude

# ATTACHMENT I-5

## AUDIT OF THE PARKING CITATIONS PROCESS THREAT DIAGRAM RECONCILIATION OF PAYMENTS TO DEPOSITS

THREAT: Citation payments not deposited in City's bank account may not be detected.



NIS - Number of Items Susceptible (Citations)  
OR - Occurrence Rate of Errors Absent Any Controls  
ADM - Average Damage Magnitude

# ATTACHMENT I-6

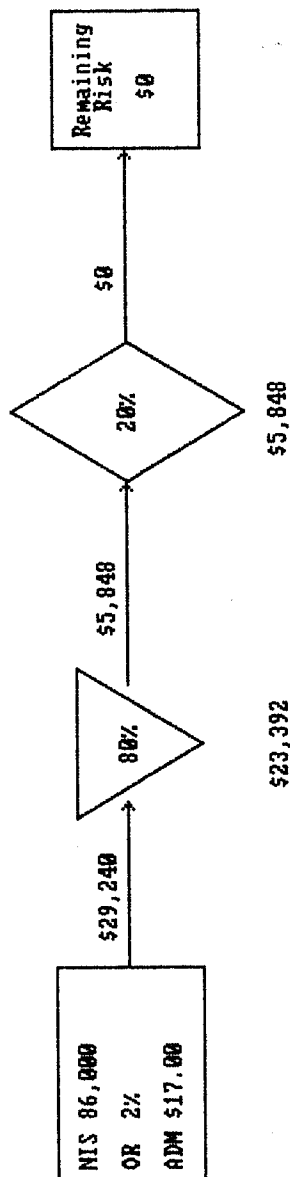
## AUDIT OF THE PARKING CITATIONS PROCESS

### THREAT DIAGRAM

#### RECONCILIATION OF VOIDED CITATIONS

THREAT: Citations voided or dismissed without proper authorization may not be detected.

REC # 9 -  
Police authorization  
Finance Department  
procedures and processing  
reconciliation  
contractor documentation  
requirements.  
Cost: \$1,440

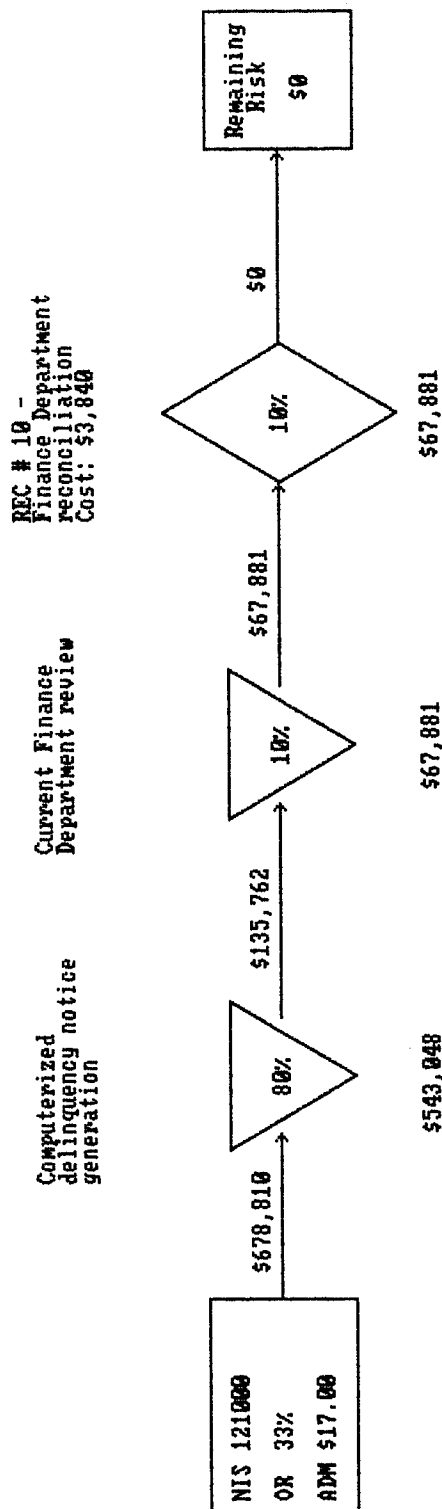


NIS - Number of Items Susceptible (Paid Citations)  
OR - Occurrence Rate of Errors Absent Any Controls  
ADM - Average Damage Magnitude

# ATTACHMENT I-7

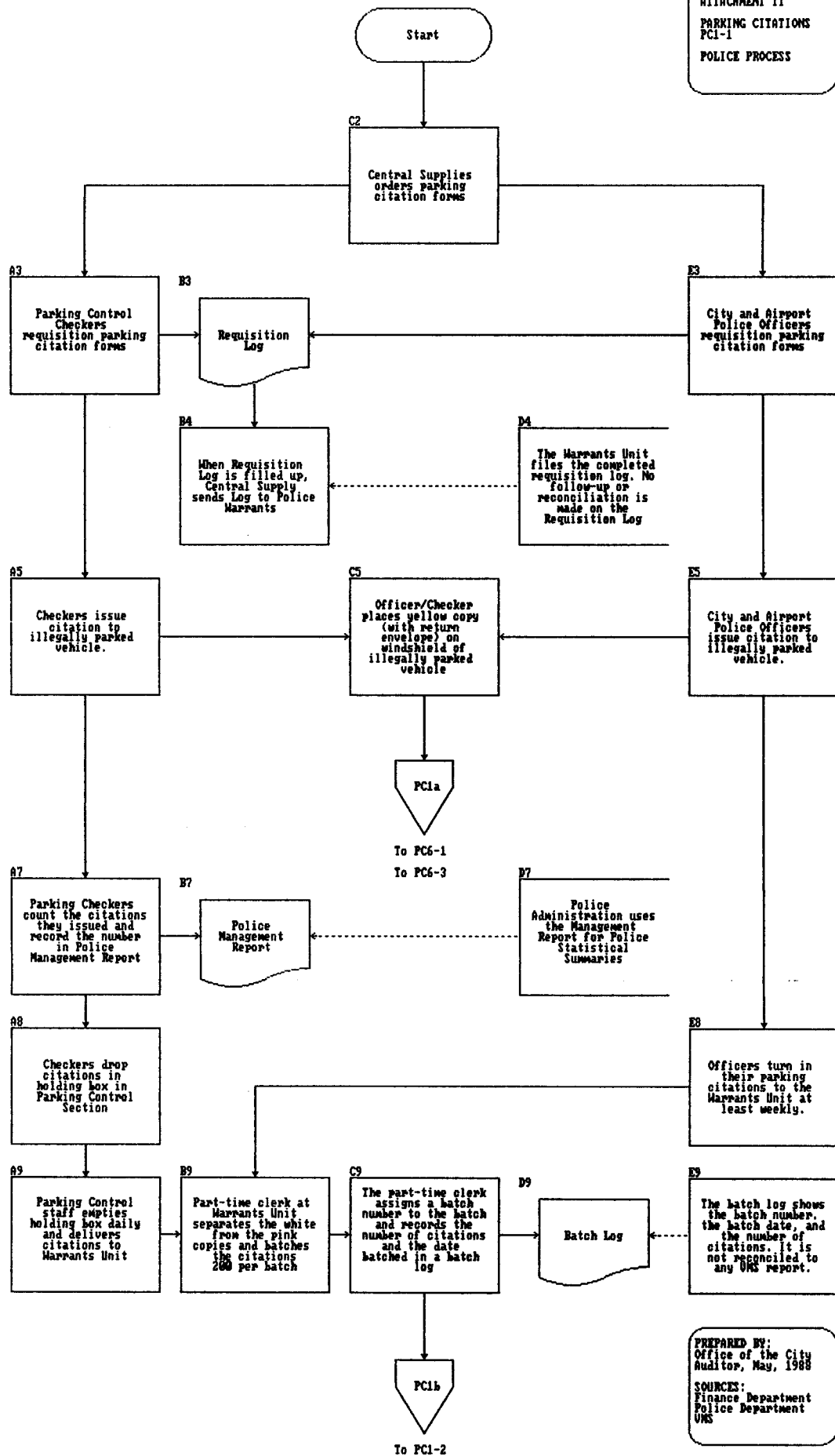
## AUDIT OF THE PARKING CITATIONS PROCESS THREAT DIAGRAM DELINQUENCY NOTICES

THREAT: Delinquency notices may not be mailed timely.

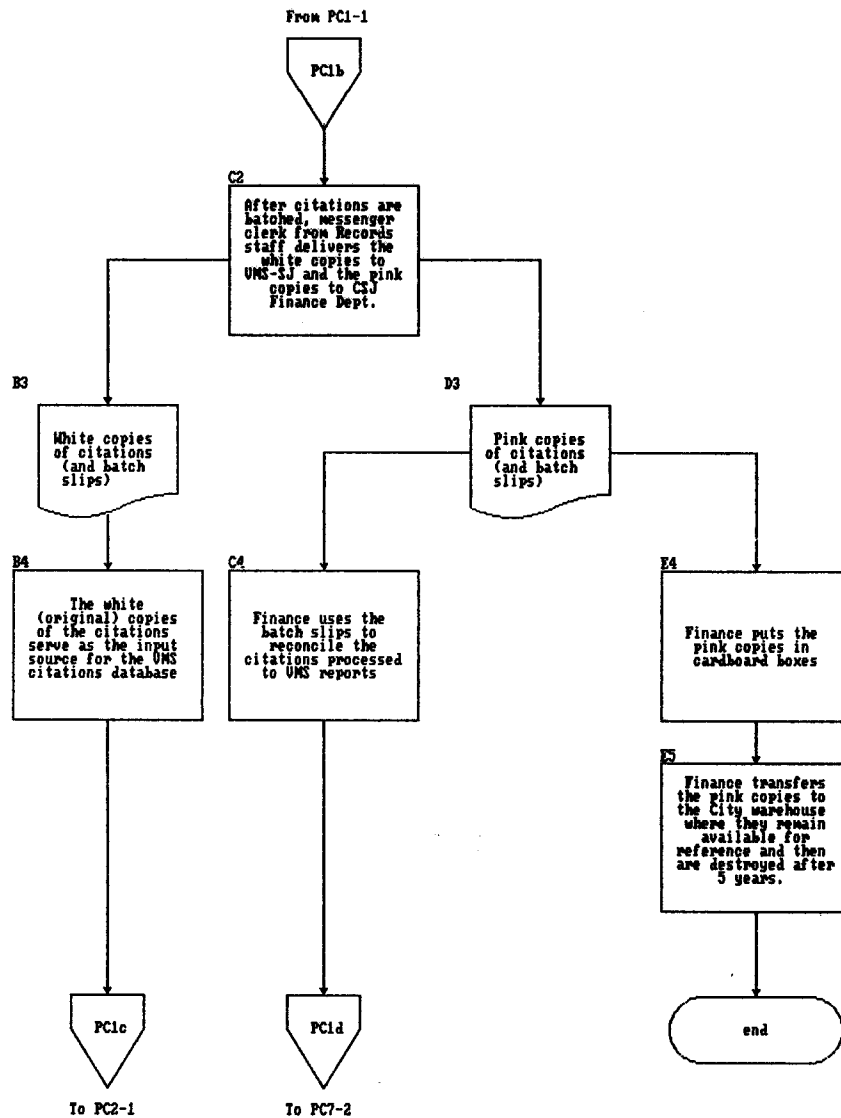


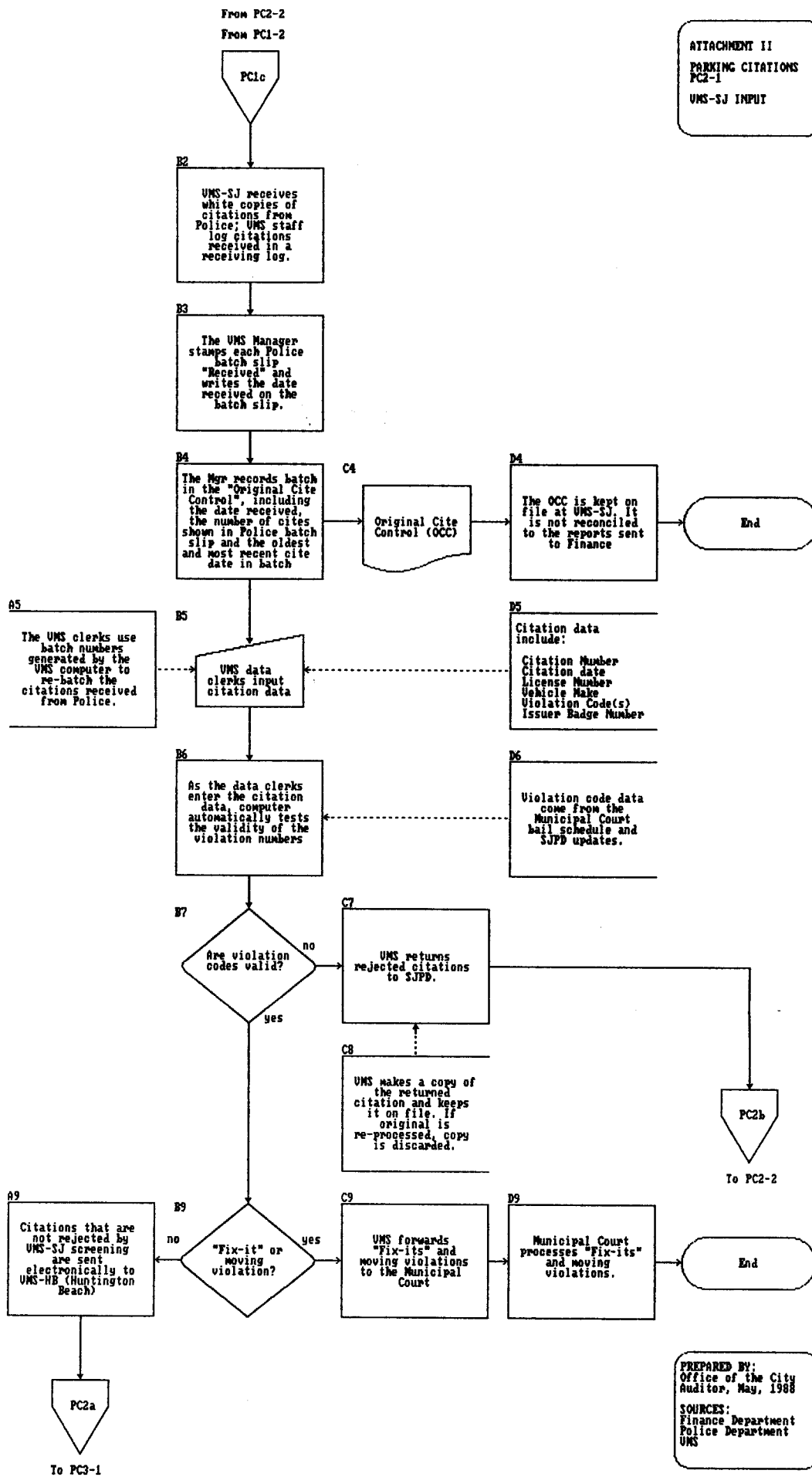
NIS - Number of Items Susceptible (Citations)  
OR - Occurrence Rate of Errors Absent Any Controls  
ADM - Average Damage Magnitude

ATTACHMENT II  
PARKING CITATIONS  
PCI-1  
POLICE PROCESS



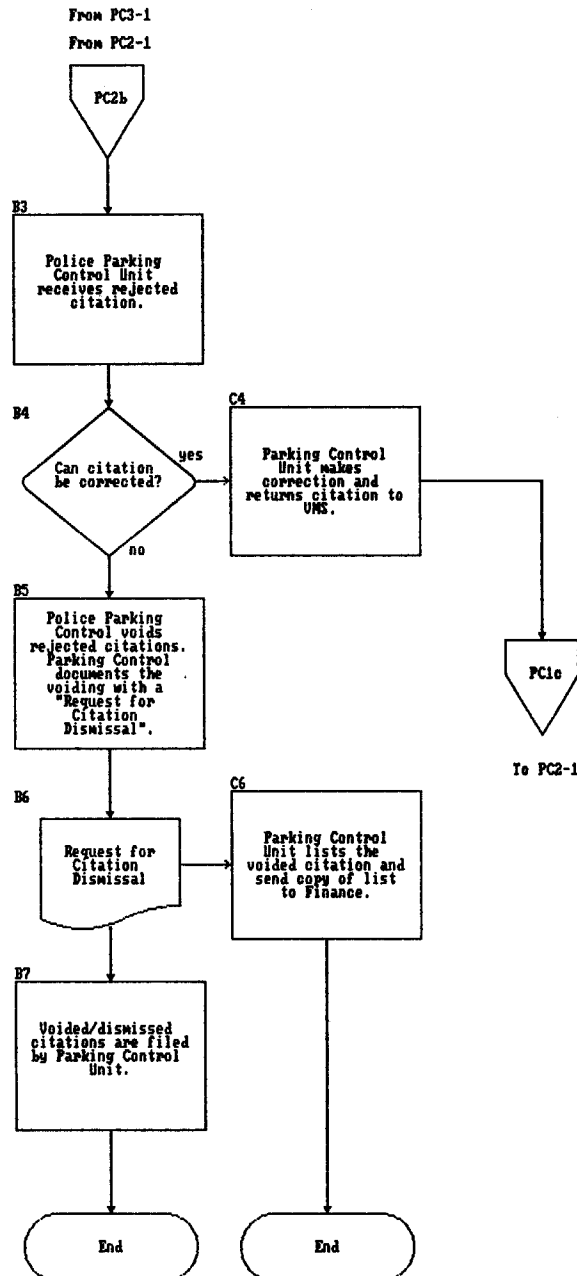
PREPARED BY:  
Office of the City Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
UMS



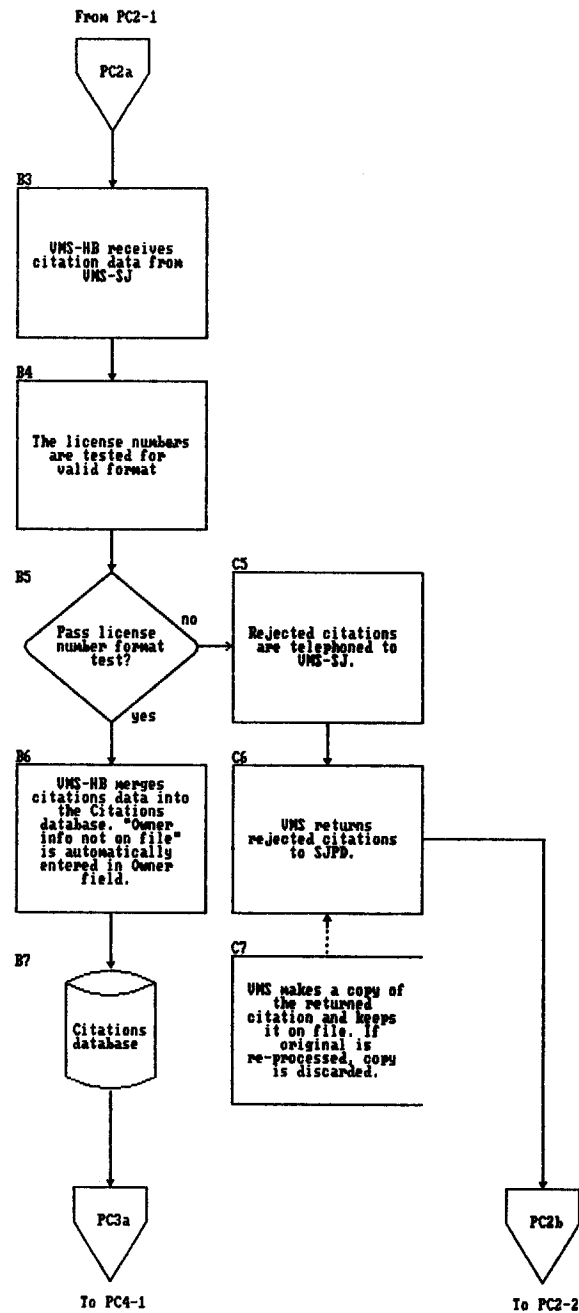




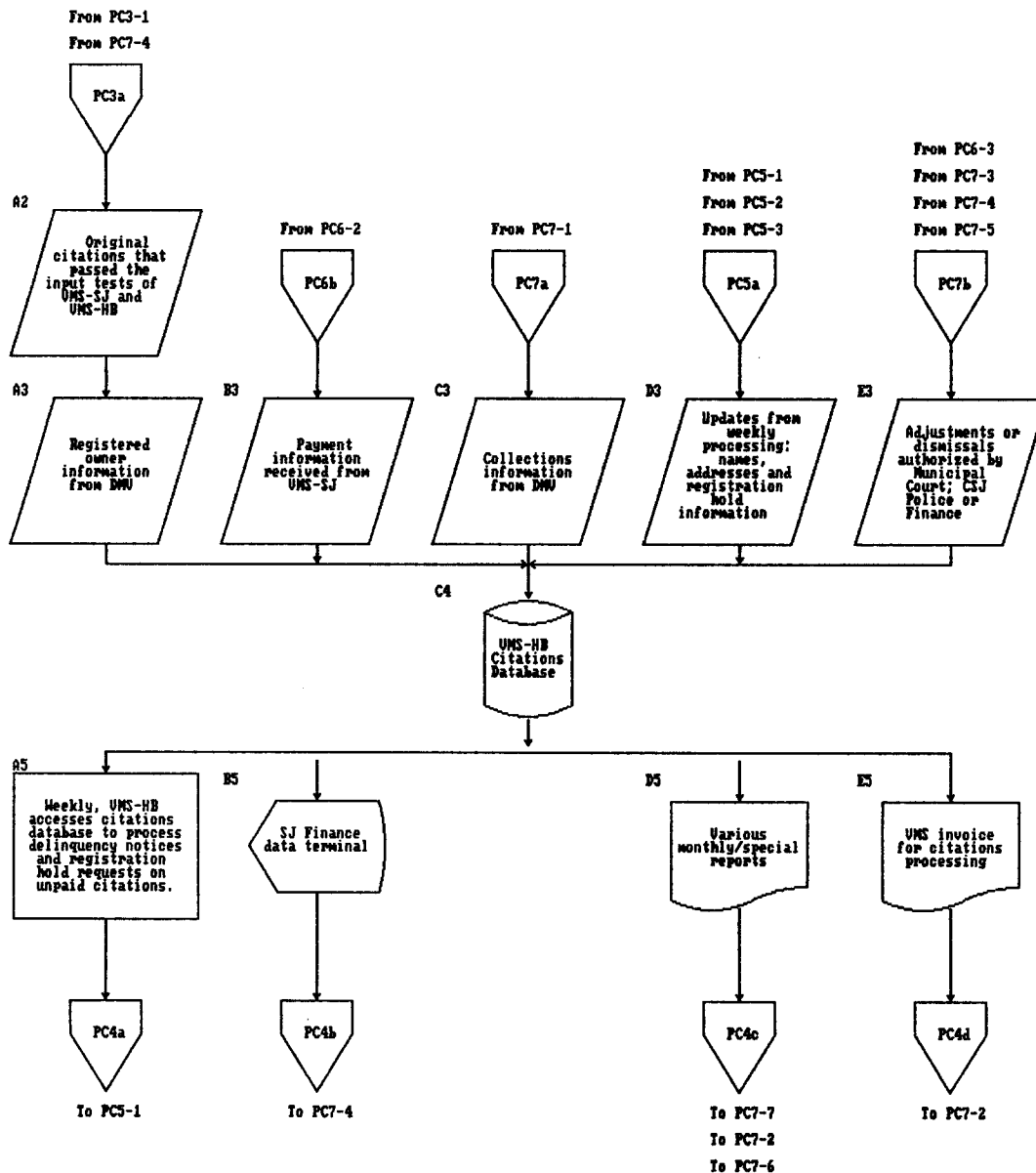
ATTACHMENT II  
PARKING CITATIONS  
PC2-2  
REJECTED CITATIONS



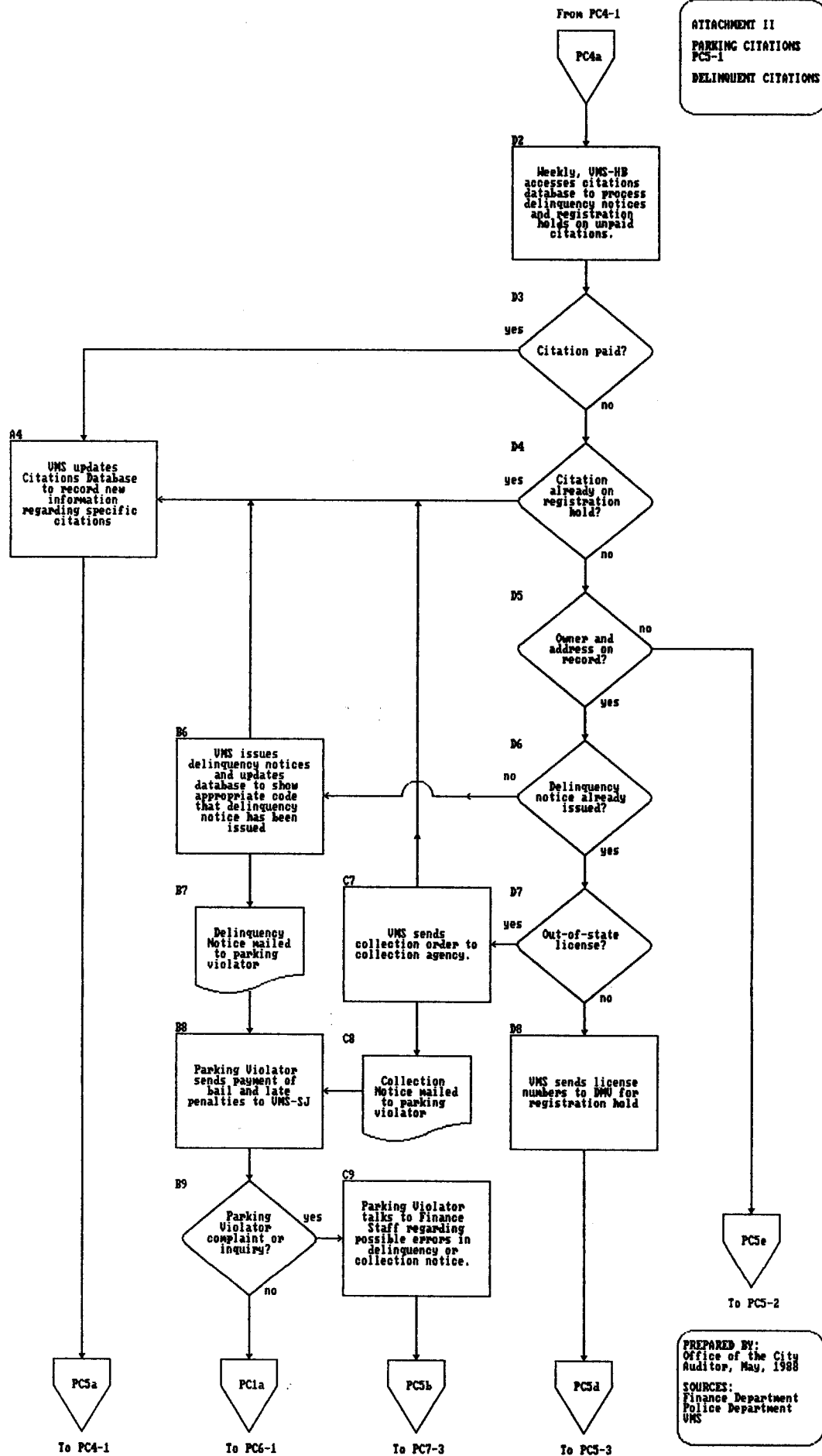
PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
UMS



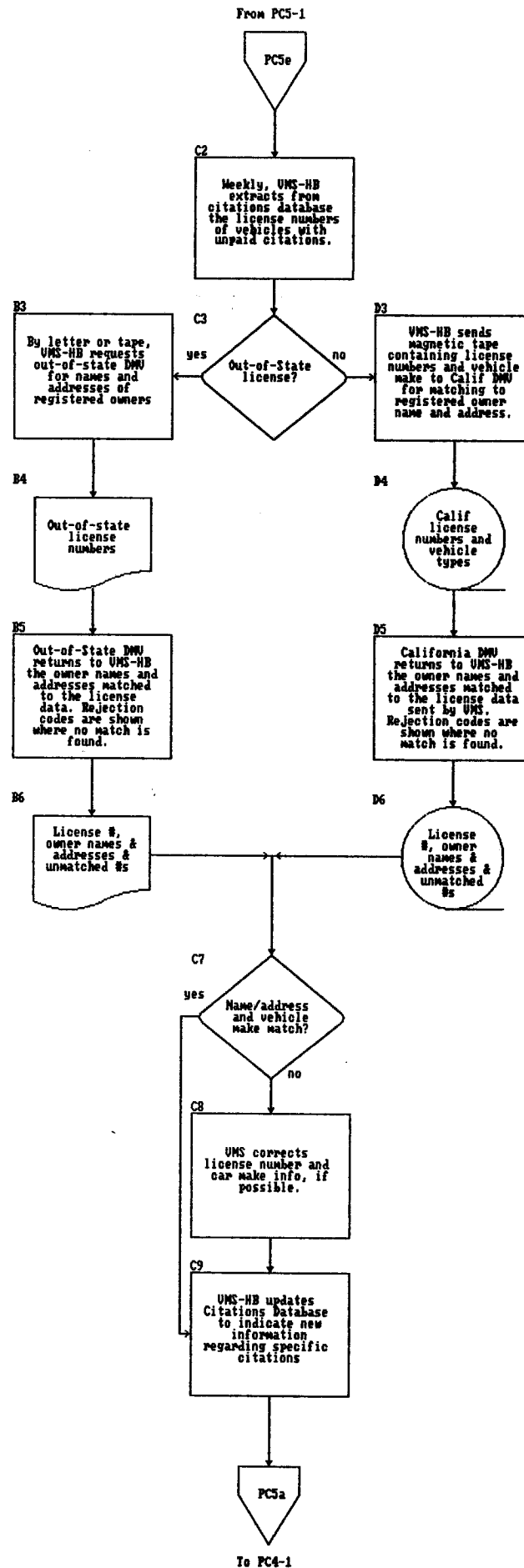
ATTACHMENT 11  
PARKING CITATIONS  
PC4-1  
CITATIONS DATABASE



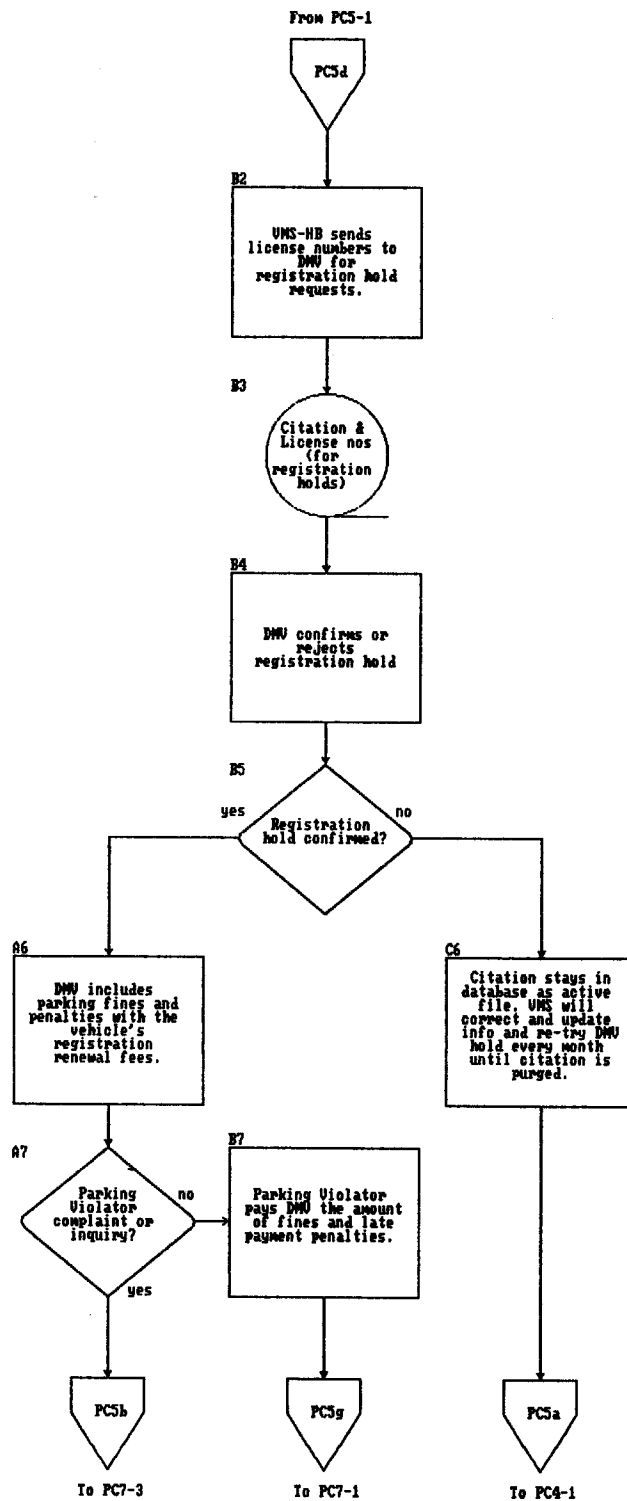
PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
UMS



ATTACHMENT II  
PARKING CITATIONS  
PCS-2  
DELINQUENT CITATIONS

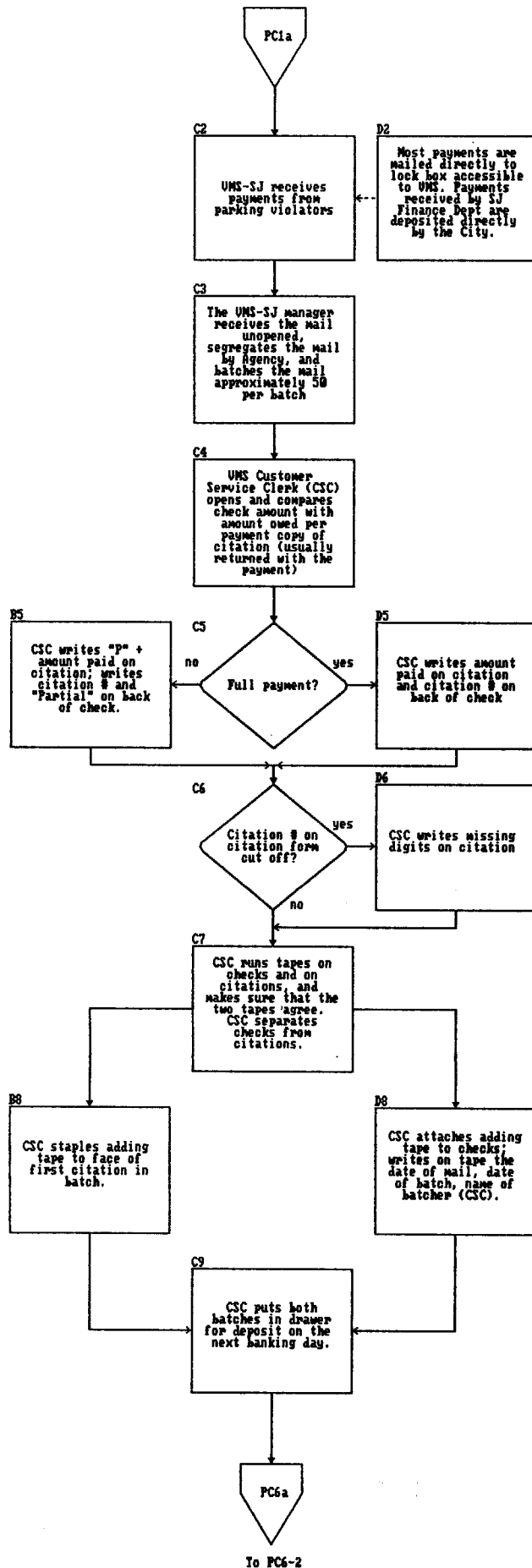


PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
VMS

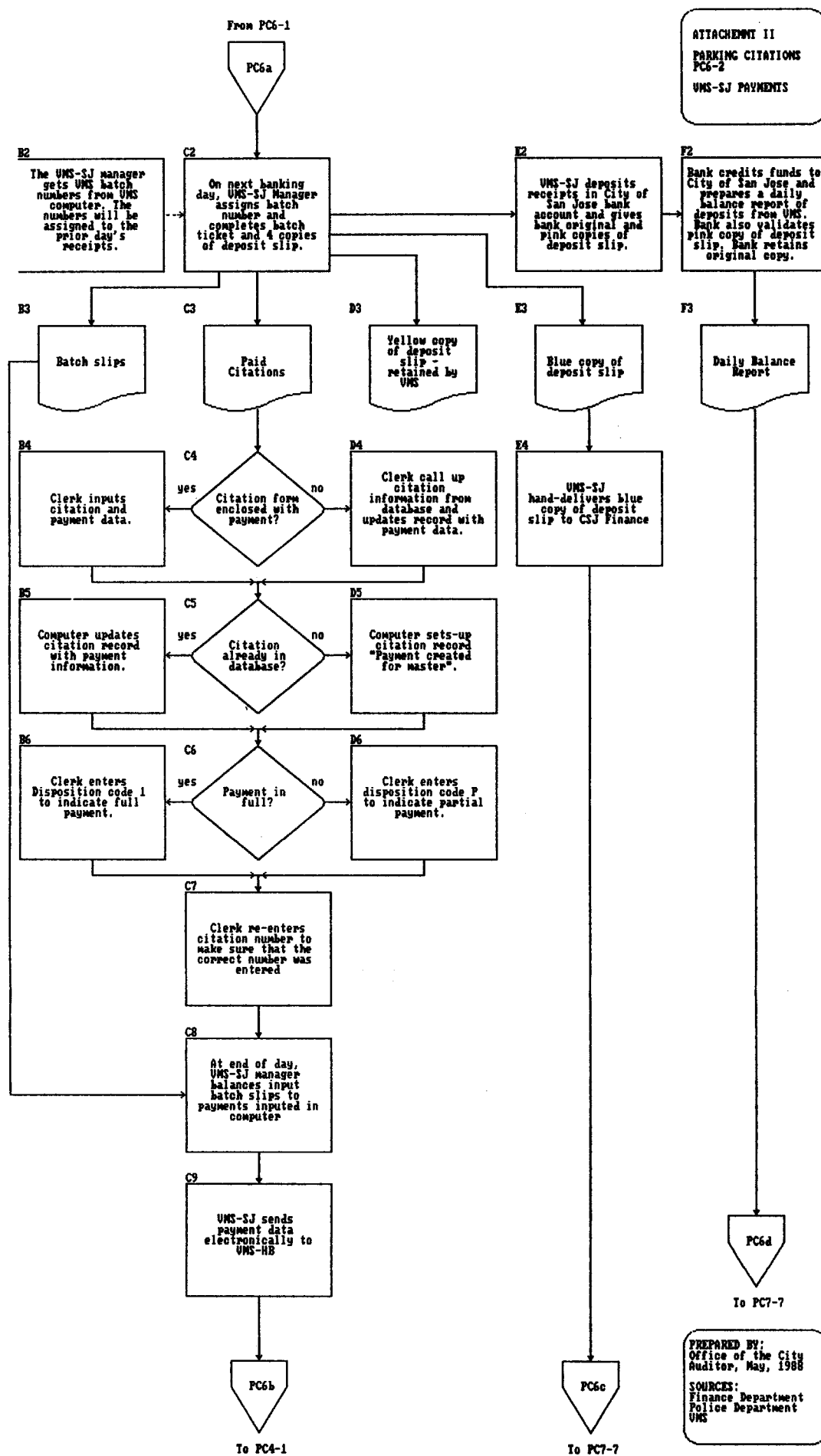


From PC1-1 From PC7-4  
From PC5-1 From PC7-6

ATTACHMENT II  
PARKING CITATIONS  
PC6-1  
UMS-SJ PAYMENTS

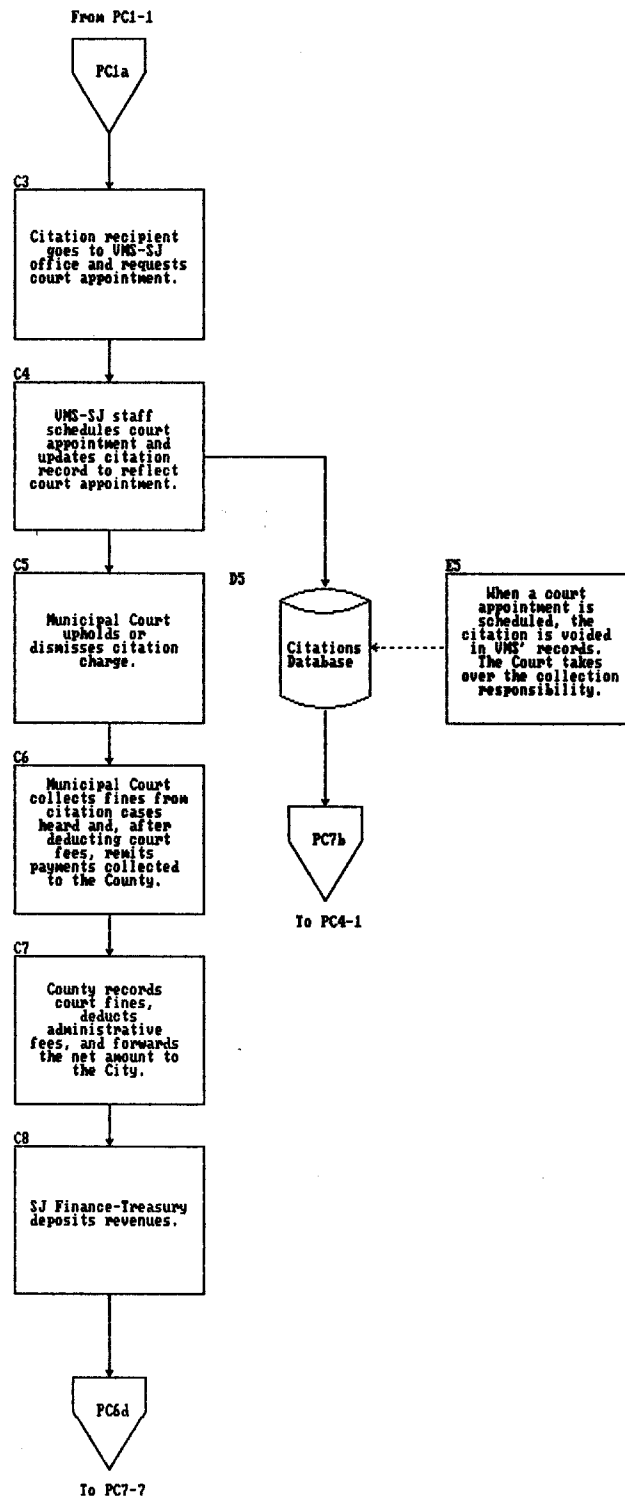


PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
UMS



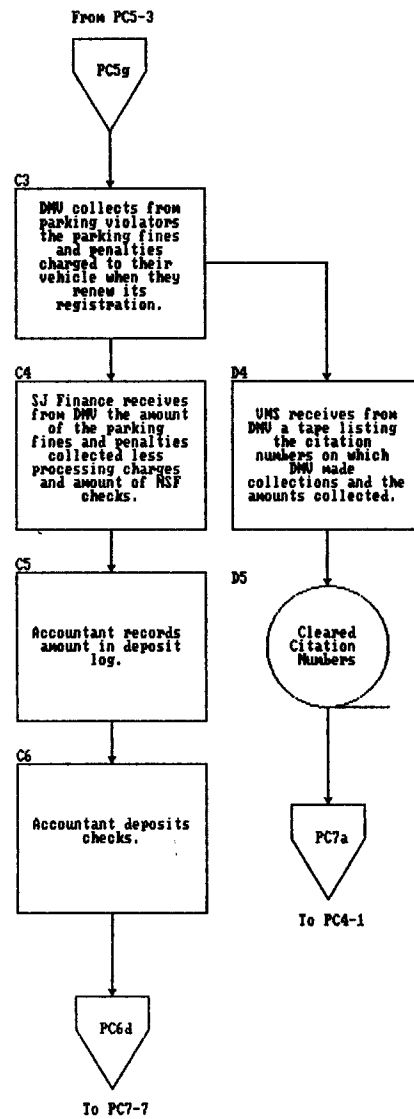


ATTACHMENT II  
PARKING CITATIONS  
PC6-3  
VMS-SJ COURT  
APPOINTMENTS



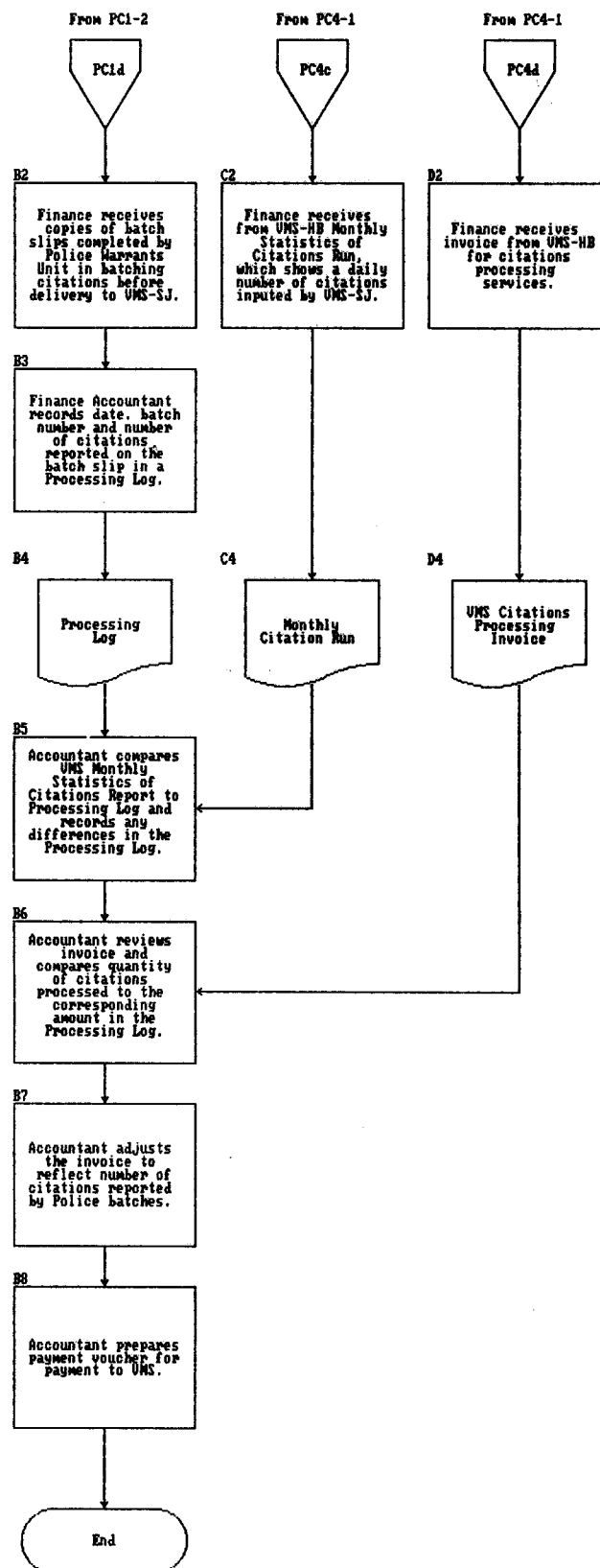
PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
VMS

ATTACHMENT II  
PARKING CITATIONS  
PC7-1  
FINANCE PROCESS  
DMV Collections



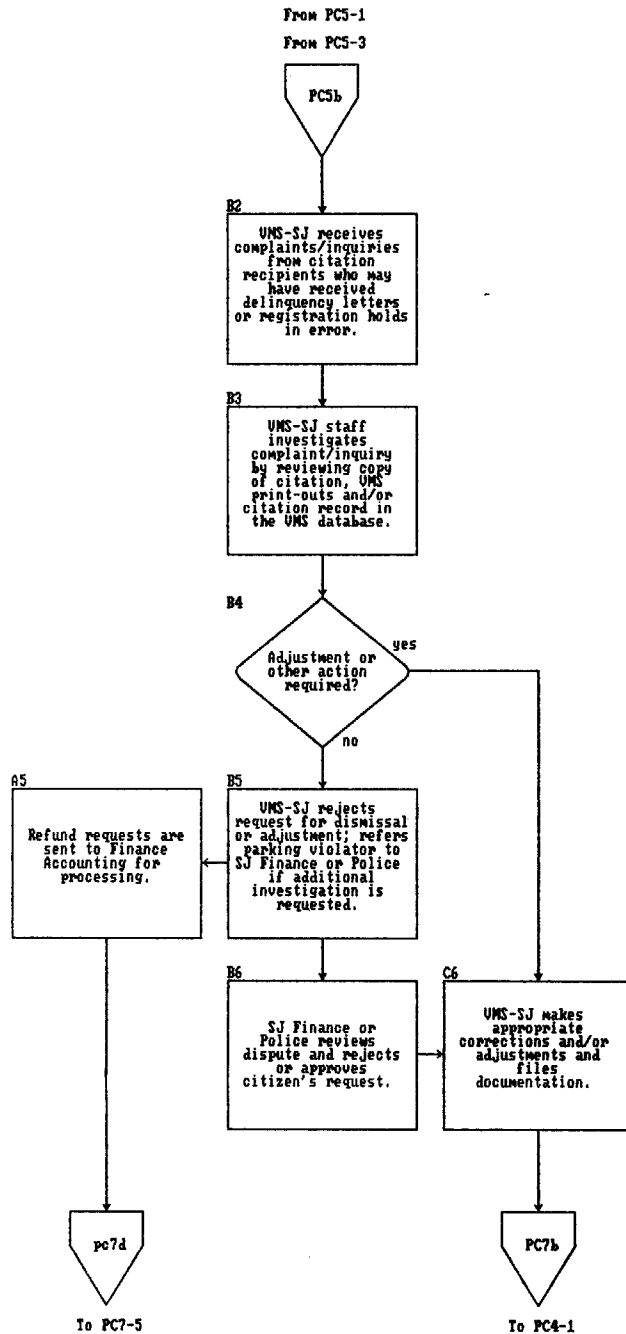
PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
UNS

ATTACHMENT II  
PARKING CITATIONS  
PC7-2  
FINANCE PROCESS  
VMS Invoice



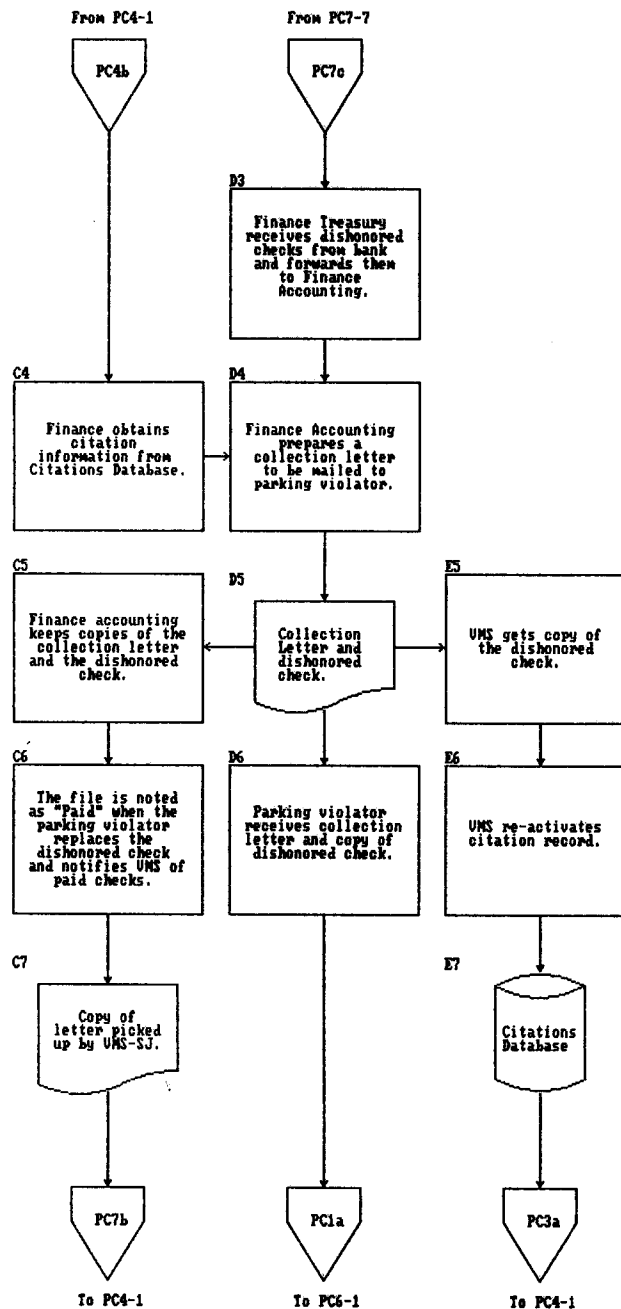
PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
VMS

ATTACHMENT II  
 PARKING CITATIONS  
 PC7-3  
 FINANCE PROCESS  
 Complaints/Inquiries



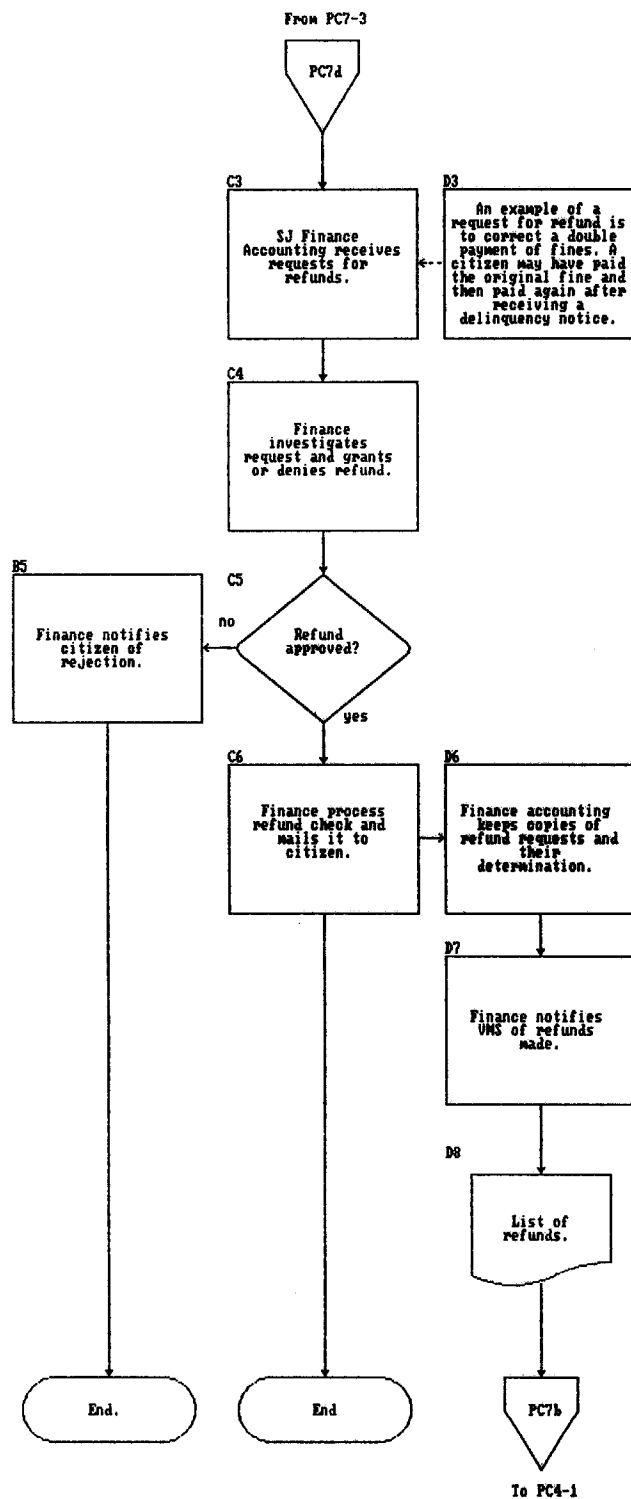
PREPARED BY:  
 Office of the City Auditor, May, 1988  
 SOURCES:  
 Finance Department  
 Police Department  
 UMS

ATTACHMENT II  
PARKING CITATIONS  
PC7-4  
FINANCE PROCESS  
Dishonored Checks



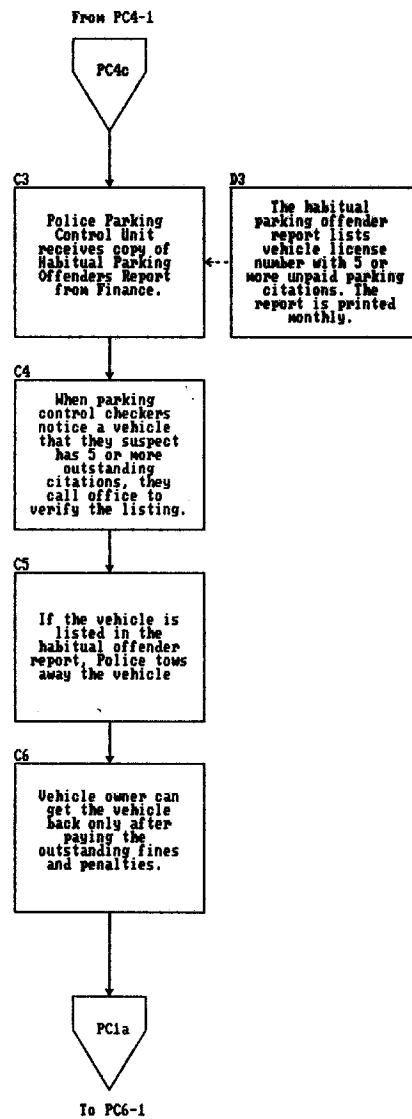
PREPARED BY:  
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SOURCES:  
Finance Department  
Police Department  
UMS

ATTACHMENT II  
PARKING CITATIONS  
PC7-5  
FINANCE PROCESS  
Refunds



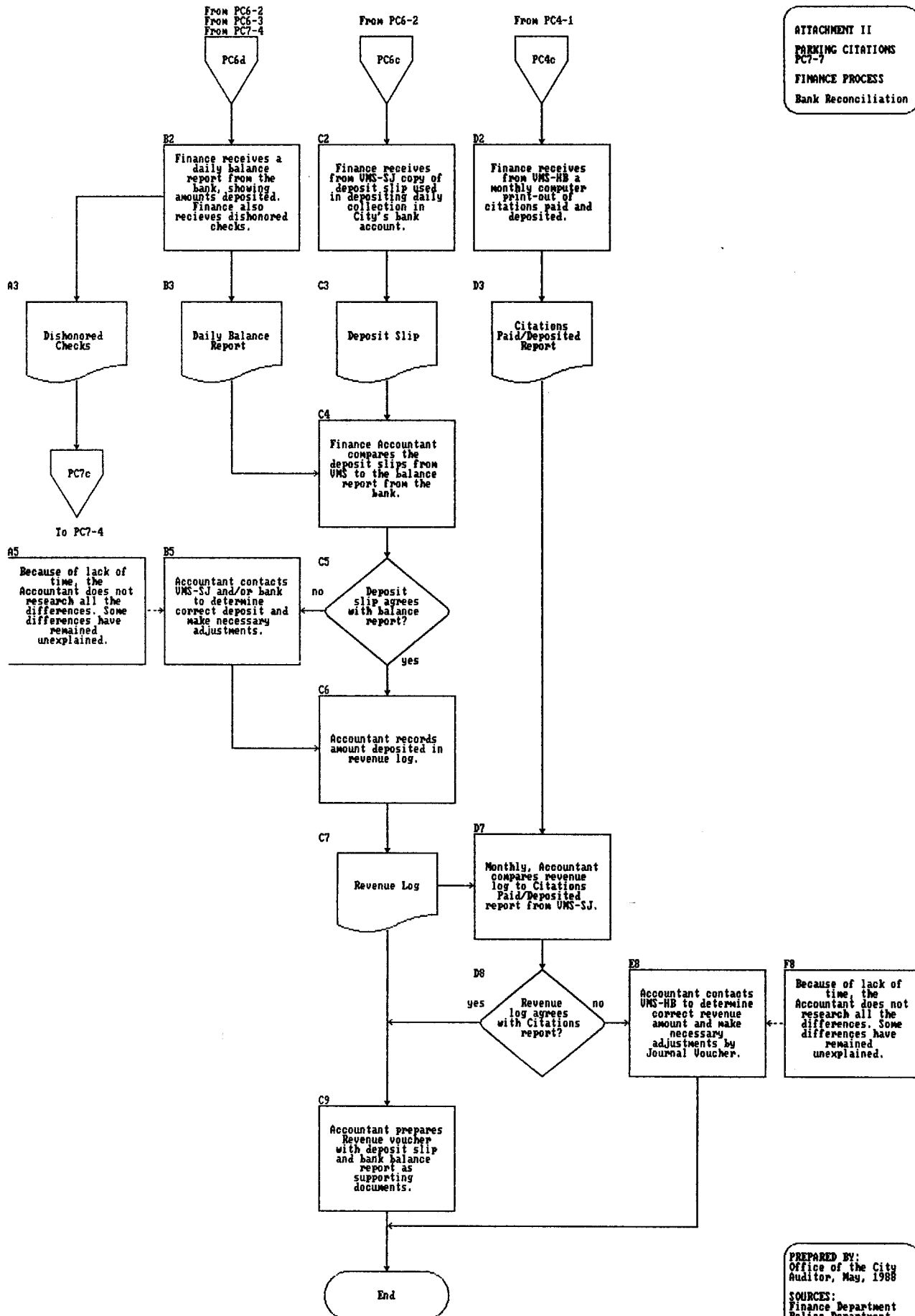
PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
VMS

ATTACHMENT II  
PARKING CITATIONS  
PC7-6  
POLICE PROCESS  
Habitual Offenders



PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
OMS

ATTACHMENT II  
PARKING CITATIONS  
PC7-7  
FINANCE PROCESS  
Bank Reconciliation



PREPARED BY:  
Office of the City  
Auditor, May, 1988  
SOURCES:  
Finance Department  
Police Department  
UMS



### *ATTACHMENT III*

#### *PARKING CITATIONS PROCESS COMPUTER PRINT-OUTS REQUIRED TO IMPLEMENT THE RECOMMENDED RECONCILIATION PROCEDURES*

To implement the recommended reconciliation procedures, the following computer print-outs will be needed:

1. *MONTHLY REPORT OF CITATIONS PROCESSED* in date processed primary sequence and citation number secondary sequence; columns showing date processed and citation numbers; subtotals by date, showing citation count.

PURPOSE: This report will be used to reconcile the citations batch slips prepared by the Police Department to the citations processed by the processing contractor. We need a detail listing of the citation numbers to enable us to identify any missing citations. Through this reconciliation, the City can determine whether citations delivered by the Police Department are processed by the contractor.

2. *MONTHLY REPORT OF CITATIONS PAID* in date deposited sequence; columns showing date deposited, date paid, number of days between date paid and date deposited; citation number, and amount paid; subtotals by date deposited showing citation count and amount paid; totals showing amounts paid and average number of days between date paid and date deposited.

PURPOSE: This report will be used to reconcile the daily deposits shown in the City's bank statements to the citation payments reported by West-Computil. We need a detail listing of the citation numbers to enable

us to identify any missing payments. Through this reconciliation, the City can determine whether payments recorded in the citations database agree with the amounts deposited in the City's bank account. The average number of days between date paid and date deposited will be used as an additional measurement for the evaluation of contractor performance.

3. *MONTHLY REPORT OF DISMISSALS, VOIDINGS, AND OTHER ADJUSTMENTS* in citation number sequence; columns showing citation number, amount of adjustment, balance due after adjustment, date of adjustment, and reason (or code) for adjustment.

PURPOSE: This report will be used to reconcile the adjustments recorded in the database to the dismissals, voidings, and other adjustments authorized by the municipal courts and the Police and Finance Departments. This critical reconciliation compensates for the lack of segregation of duties in the receipt and recording of payments, and resolution of citizen complaints (the processing contractor currently does all three functions) and will ensure that all dismissals, voidings, and other adjustments recorded in the database are properly authorized.

4. *QUARTERLY REPORT OF CITATIONS THAT REMAIN UNPAID 31 DAYS OR MORE AFTER ISSUANCE* in number-of-days-after-issuance sequence; columns showing number of days after issuance, date issued, citation number, original bail amount, delinquency penalties, date delinquency notice was mailed, reason (or code) why delinquency notice was not mailed, date registration hold was requested, reason (or code) why registration hold was not requested, date registration hold was confirmed, reason (or code) why registration hold was rejected, date collection letter

was mailed, reason (or code) why collection letter was not mailed; subtotals (showing citation count, original bail amounts, and delinquency penalties) for unpaid citations 31 to 44 days after issuance, 45 to 74 days after issuance, 75 to 89 days after issuance, and 90 days or more after issuance.

PURPOSE: This report will be used to keep track of the number of unpaid citations by age group. By comparing the information from quarter to quarter, the City can determine whether the delinquency level is improving or deteriorating. This report will also be used to monitor the collection activities of the processing contractor. Through this report, the City can determine whether the contractor has performed the prescribed collection action as each unpaid citation ages. If the prescribed collection action is not performed, the City can also determine the reason for the failure. Finally, this report can be used to determine which citations should be investigated for further collection action or write-off.